

Democratic Services

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16 June 2017

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To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: David Veale (Chair), Christopher Pearce (Vice-Chair), Shaun Stephenson-McGall, Lisa O'Brien and Rob Appleyard

Co-opted Voting Members: Councillor Steve Pearce (Bristol City Council), Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), William Liew (HFE Employers), Shirley Marsh (Independent Member) and Wendy Weston (Trade Unions)

Co-opted Non-voting Members: Richard Orton (Trade Unions), Cheryl Kirby (Parish and Town Councils) and Steve Paines (Trade Unions)

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 23rd June, 2017

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 23rd June, 2017 at 2.00 pm** in the **Kaposvar Room - Guildhall, Bath**

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.

NOTES:

- 1. Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Guildhall Bath (during normal office hours).
- 2. Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

3. Recording at Meetings:-

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control.

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- 4. Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

Appendices to reports are available for inspection as follows:-

Public Access points - Reception: Civic Centre - Keynsham,- Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

For Councillors and Officers papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

5. **Attendance Register:** Members should sign the Register which will be circulated at the meeting.
6. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.
7. **Emergency Evacuation Procedure**

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

Arrangements are in place for the safe evacuation of disabled people.

Avon Pension Fund Committee - Friday, 23rd June, 2017

at 2.00 pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

The Chair will ask the Committee Administrator to draw attention to the emergency evacuation procedure as set out under Note 8.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is a **disclosable pecuniary interest** or an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions or questions from Councillors and where appropriate co-opted and added members.

7. MINUTES: 24 MARCH 2017 (Pages 7 - 22)

If Members wish to discuss the exempt minutes, they are invited to go into exempt session before they do so.

8. ROLE AND RESPONSIBILITIES OF COMMITTEE (Pages 23 - 38)

9. NOTING OF DRAFT ACCOUNTS 2016/17 (Pages 39 - 78)

10. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 79 - 90)

The Committee is invited to go into exempt session before discussing Exempt Appendix 2.

11. ANNUAL REVIEW OF INVESTMENT STRATEGY AND PERFORMANCE (Pages 91 - 156)

The Committee is invited to go into exempt session before discussing Exempt Appendix 3.

12. LGPS POOLING OF ASSETS (Pages 157 - 244)

13. INTERNAL AUDIT UPDATE (Pages 245 - 270)

14. REPORT ON GMP RECONCILIATION (Pages 271 - 280)

15. BUDGET AND CASHFLOW MONITORING (Pages 281 - 290)

16. PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR QUARTER AND YEAR ENDING 31 MARCH 2017 AND RISK REGISTER ACTION PLAN (Pages 291 - 318)

17. UPDATE ON LEGISLATION (Pages 319 - 326)

18. WORKPLANS (Pages 327 - 338)

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

Protocol for Decision-making

Guidance for Members when making decisions

When making decisions, the Cabinet/Committee must ensure it has regard only to relevant considerations and disregards those that are not material.

The Cabinet/Committee must ensure that it bears in mind the following legal duties when making its decisions:

- Equalities considerations
- Risk Management considerations
- Crime and Disorder considerations
- Sustainability considerations
- Natural Environment considerations

- Planning Act 2008 considerations
- Human Rights Act 1998 considerations
- Children Act 2004 considerations
- Public Health & Inequalities considerations

Whilst it is the responsibility of the report author and the Council's Monitoring Officer and Chief Financial Officer to assess the applicability of the legal requirements, decision makers should ensure they are satisfied that the information presented to them is consistent with and takes due regard of them.

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 24th March, 2017, 2.00 pm

Bath and North East Somerset Councillors: David Veale (Chair), Christopher Pearce (Vice-Chair), Cherry Beath and Lisa O'Brien

Co-opted Voting Members: Councillor Steve Pearce (Bristol City Council), Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), William Liew (HFE Employers), Ann Berresford (Independent Member), Shirley Marsh (Independent Member) and Wendy Weston (Trade Unions)

Co-opted Non-voting Members: Richard Orton (Trade Unions), Cheryl Kirby (Parish and Town Councils) and Steve Paines (Trade Unions)

Advisors: Tony Earnshaw (Independent Advisor), Steve Turner (Mercer) and Paul Middleman (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Geoff Cleak (Pensions Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

67 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

68 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Shaun Stephenson-McGall.

69 DECLARATIONS OF INTEREST

Ann Berresford declared an interest in respect of agenda item 9 (LGPS Pooling of Assets) as she had applied to become a non-executive director of the Brunel Company. She said that she would withdraw from the meeting when this item was discussed.

William Liew declared that he was about to join the board of a multi-academy trust which included academies which were members of the Avon Pension Fund. His appointment would not take effect for a couple of weeks, but he was making the declaration now, in case any issues relating to academies arose.

70 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

71 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

72 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

73 MINUTES: 9TH DECEMBER 2016

The public and exempt minutes of 9th December 2016 were approved as a correct record and signed by the Chair.

74 AUDIT PLAN 2016/17

The Finance and Systems Manager (Pensions) presented the report. He asked Members to note that the closing of the accounts for 2016/17 had been brought forward by one month to 31 May from 30 June as a dry run for 2017/18, when the earlier closing date becomes mandatory. The draft accounts would be presented to the June meeting of the Committee, the audit would be completed by the end of July and the final accounts would be presented to the Corporate Audit Committee on 12 September and to this Committee at the September meeting. The Committee was invited to note the audit plan prepared by Grant Thornton, which explained their approach to the audit. He introduced Julie Masci and Megan Gibson from Grant Thornton.

Ms Masci and Ms Gibson commented on the audit plan.

A Member noted that benefits based on final salaries were being replaced by benefits based on average salary and asked whether the audit would examine whether employers were making the correct contributions. Ms Masci said that specific testing on contribution payments was carried out a sample of employers. The onus was on employers to pay correct contributions, but the auditor had a responsibility to report to the Fund if there was evidence that employers were calculating contributions incorrectly. The auditor also carried out high-level checks on employer systems to make sure that they were appropriate.

A Member referred to the section in the audit plan dealing with the role of Internal Audit (agenda page 33) and said that he could not recall having seen any report from them. The Head of Business, Finance and Pensions responded that the last report on the Fund by Internal Audit had reviewed its performance against the Pensions Regulator's requirements. The Fund was found to be fully compliant. This report had been presented to the Pension Board, which had raised some issues in relation to the Fund's employers. He had spoken to the Head of Audit and it had been agreed that in view of the number of employers now in the Fund and the increased churn of membership there should be a more regular review of the transactional aspects of the Fund, not on a risk-based approach, but focussing on the testing of valuations and calculations. Reports from these reviews would be brought to the Committee.

The Head of Business, Finance and Pensions noted that in contrast to previous years this year's final accounts would be presented to the Corporate Audit Committee before being presented to this Committee. Lessons would be learnt from this year's dry run as to whether controls needed to be adjusted to take account of the earlier date. He thought that this year's audit report might be longer than in previous years, but this would help to identify improvements for when the earlier closing date became mandatory. Ms Masci said that experience from other authorities who had already brought their accounts forward had shown that there was an increased need for management to make judgements about entries in the accounts because final information was not available before closure. It was possible that more errors would be noted by the auditors because more information would be available at the time of audit that was available at closure. An increase in identified errors would not necessarily indicate a decline in accounting performance by the Council.

A Member suggested that if officers felt that the accounting processes for the Fund needed further improvement, they might consider convening a sub-group of Members to advise on this.

RESOLVED to note the Audit Plan for the accounts for the year ended 31 March 2017.

75 LGPS POOLING OF ASSETS - OUTCOME AND EMPLOYER UPDATE

Ann Berresford withdrew from the meeting in accordance with her declaration of interest.

The Investment Manager presented the report. She asked Members to note that the Committee's Terms of Reference would need to be amended to add the function of nominating a representative to the Oversight Board when this passed from shadow to substantive status. The proposed new Terms of Reference were attached as Appendix 1 to the report; they would need to be approved by Council in May.

A Member asked about the contingency of £500,000 to manage significant variances in individual items in the 2017/18 budget (para 7.1 of the report). He said this was a very high proportion of the £750,000 of the project budget for 2017/18 and wondered whether this indicated that the original cost estimates for the project had been wrong. The Investment Manager said that the total budget for the 15-month project was £1.4m. FLAG had agreed the contingency so that it would not be necessary to go back to the Committees if there were cost overruns. The money could only be drawn on if this was agreed by S151 officers. The Head of Business, Finance and Pensions added that the contingency had been agreed after it was found that the cost of recruitment process for the Chair of the Brunel Company would be well over budget. Another issue was that the FCA accreditation process had imposed a heavier workload than anticipated. A reserve had been set up to facilitate the process without the need to make repeated requests to Committee or Council for additional funds. These were one-off costs to ensure that the company could begin operations on 1st April 2018.

The Member nominated by Higher and Further Education bodies said that it was not correct to state that he was nominated by "the education bodies" (Terms of

Reference, top of agenda page 48). A Member pointed out that the term “West of England” (ibid.) was now ambiguous, because the Mayoral Combined Authority does not include North Somerset.

The Chair invited the Committee to go into exempt session before discussion of Exempt Appendix 2.

The Committee **RESOLVED** that it was satisfied that the public interest would be better served by not disclosing relevant information, and that therefore the public should be excluded from the meeting for the duration of the discussion of Exempt Appendix 2 to this item in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

Having returned to open session the Committee **RESOLVED**

1. to approve the amended Terms of Reference for the Committee to be recommended to Council for approval at Council meeting in May 2017;
2. to note that the Committee will have to formally nominate its representative to the Brunel Partnership Oversight Board once the Board moves from shadow to formal status;
3. to note the progress with establishing the Brunel Pension Partnership Limited company.

76 2016 ACTUARIAL VALUATION OUTCOME AND EMPLOYER UPDATE

The Investment Manager presented the report.

She said that the Actuary would complete the valuation report, subject to further data which might emerge from the valuation, by 31st March 2017. Section 5 of the report summarised the outcome of the valuation and gave details of actions to be taken to mitigate employer risk. A report on the financial covenants of the employers would be presented to the committee annually starting from 2017/18. Exempt Appendix 2 gave an update on the Funds management of the risk associated with Community Admission Bodies.

In reply to a question from a Member she said that until 2006 Community Admission Bodies were admitted to the Fund without guarantees. Since that date the Fund has been able to require the outsourcing employer to provide a guarantee and its policy has required a guarantee. The provision of a guarantee in respect of all Admission Bodies was made mandatory by the 2013 Regulations.

The Fund’s Actuary, Paul Middleman, and officers replied to questions from Members.

Q: Has longevity plateaued?

A: The rate of improvement is tailing off. It is yet to be seen whether it will reverse. References to longevity in the valuation relate to members of the Fund, who are rather different from the general population. There is some falling back, but the improvement rate of the longevity of males is still catching up with that of females.

Q: Can you explain how the three factors identified in the table of changes to the Future Service Rate (FSR) (agenda page 58) operate?

A: Change in membership profile can be because of gender, but the dominant factor is age. The older the member, the more expensive it is to provide benefits to them. Our assumption is that on average the membership will be older, so there will be an increase in the cost of providing benefits. Change in financial and demographic assumptions is a combination of two elements. The financial element comprises mainly the discount rate, the outlook for future returns based on market conditions and the term of future service liabilities. The discount rate for future service has been reduced, resulting in an increase of 1.2% of pay per annum for the FSR. The demographic assumption was that on average scheme members might live a month less. The third factor was the 50/50 scheme introduced in 2014. An allowance for this scheme was put into the 2013 valuation for the FSR of the Unitary Authorities, but of course at that time there was no experience of who would take it up. This allowance has been removed from the 2016 valuation, resulting in a further 0.5% increase in the FSR.

Q: If after Brexit in 2019 there is a hit to the economy, quite a few employers will struggle in to achieve their recovery periods and may approach the Fund for an extension. Is this not something we should be thinking about now?

A: The intention is to get the average recovery period down to 15 years because the scheme is an open one. We will have to wait and see if there is any adverse impact to Brexit. An important factor is the level of debt. We do not want to take a very high debt on future investments that is triggered post Brexit and then also extend the recovery period. The balance is a difficult one to strike, and it is hard to identify specific actions that we should take.

Q: I am concerned about how increases in employer contributions are phased in. Once raised, they are not going to come down. Are the phased increases really necessary in view of the improved funding position?

A: Employer contributions have been raised by the minimum, just 0.5%. We always consider affordability very carefully. Even though the funding level has improved, cash flow has to be maintained.

Q: There is discussion about people being required to work in their 70s, so employers will have to continue to pay pensions contributions on their behalf. At the same time if they are working, they will not be receiving their pensions. Have any calculations been done about the net effect of this?

A: We do an analysis of when people are retiring and work out the average, so the fact that people are working longer is included in the calculations. If people work past state pension age, on a cost basis they get their benefits in hand and that is taken into account. A more important factor is that the longer people work, the more likely they are to take ill-health retirement, and that is factored in as well.

RESOLVED:

1. To note the outcome of the 2016 actuarial valuation exercise.
2. To note the actions taken to monitor and mitigate employer risk.

77 REVIEW OPTIONS FOR ILL HEALTH INSURANCE FOR SMALLER EMPLOYING BODIES

The Investment Manager presented the report.

She explained that the costs of ill health retirement could be substantial for smaller employers. During the consultations on the 2016 Funding Strategy Statement smaller employers had been interested in options for mitigating this risk. Two options were explored in a document prepared by Mercer attached as Exempt Appendix 1 and the characteristics of these were summarised in section 5 of the report. The recommendation was to implement an internal captive ill health insurance arrangement.

A Member noted the statement in paragraph 1.3 of the covering report that an ill health pension strain is currently met by an ill health allowance in each employer's future service contribution rate and asked whether the establishment of an ill health insurance scheme would allow contribution rates to be lowered. If not, it would seem that employers would be paying twice over. Mr Middleman replied that employer contribution rates would not necessarily decrease if an insurance scheme was set up, but employers would not be paying twice. The advantage to the employer if there were an insurance scheme would be that they would not bear the whole cost of ill health pension strain, because it would be spread across the whole Fund. Premiums would not be reduced unless it considered that the insurance arrangements were funded sufficiently, or if the occurrence of ill health was lower than expected. Employers would not have reduced contribution costs, but would get better protection. That is, essentially, what is meant by self-financing.

A Member said that it was important that the true cost of ill health retirement was identified. Mr Middleman agreed, and said ill health would continue to be monitored on an individual employer basis. There should be strong governance from the outset to ensure this.

In reply to a question from a Member, the Investment Manager said that the captive fund would be kept within the investment portfolio as an investment pot. It would therefore have no impact on the Investment Strategy.

RESOLVED to approve the recommendation to implement an internal captive ill health insurance arrangement with effect from 1 April 2017 (when the new rates from the 2016 internal valuation commence).

78 BUDGET AND SERVICE PLAN 2017/20

The Head of Business, Finance and Pensions introduced the report. He said that 2016/17 had been an extremely challenging year with an unprecedented level of work, which included the Valuation, developing the Brunel Pension Partnership and setting the Brunel company, introducing a new IT system, and developing the LDI and SRI policies. The implementation of a new structure for Pensions staff was now being completed. The Brunel project and its impact on the operation and governance arrangements of the Fund would be the main priority for 2017. There was work on reporting and performance, and on communications with employers and members. Work would continue on the implementation of the IT strategy. There were also a

number of tasks on the investment side, including the review of the strategic allocation.

A Member noted the big increase in members reported in the table on agenda page 95 and said that this was at first sight puzzling, because most employers in the Fund were shedding staff. The Investment Manager replied that there had been an increase in part-time staff.

A Member asked whether it was possible to state the costs of Project Brunel and the Fund's administration and investment costs more clearly. The Head of Business, Finance and Pensions replied that the restructuring of the Administration Team had been a top priority because of the number of employers now in the Fund. It had now nearly been completed. On the investment side, the impacts of Project Brunel had to be worked through and thought given to the structuring of strategic support to the Committee in the future. As soon as the picture became clearer, the Committee would be updated.

A Member said that data improvement was critical, particularly now that the new career average scheme was operational and that TPR was putting so much emphasis on it; she hoped that progress would be maintained. The Head of Business, Finance and Pensions responded that the Fund did have a training programme for employers. One key difficulty was the turnover of staff dealing with pensions within the employers; employers had to be persuaded to maintain their own training programmes. Some employers were facing resource challenges. The ultimate sanction of reporting employers to TPR was being held in reserve for the time being, but there would be continuing emphasis on communicating to employers the importance of providing correct data.

A Member asked which IT projects would impact this year. The Head of Business, Finance and Pensions replied that the Fund's software supplier, Heywood, was reviewing the employer self-service package and was building a new product. It was expected that a test package would be available this year. There was also a rebuild of the payroll system, which allowed better task management and workflow facilities. Implementation was planned for the summer. This work has been postponed from the end of last year, because Heywood wanted to subcontract some of the work to other specialist software firms.

In response to questions from a Member, the Investment Manager explained that Governance Costs included the cost of independent investment advice and that the cost of the valuation was included in Compliance Costs. The reason for the fluctuation in the Independent Members' costs was that the term of appointment for one of the Independent Members would expire this year and so included recruitment costs.

RESOLVED to approve the 3-Year Service Plan and Budget for 2017-20 for the Avon Pension Fund.

79 TREASURY MANAGEMENT POLICY

The Finance and Systems Manager (Pensions) presented the report. He reminded Members that the Treasury Management Policy was reviewed annually. No changes were proposed in 2017/18.

RESOLVED to approve the Treasury Management Policy as set out in Appendix 1 to the report.

80 INVESTMENT STRATEGY STATEMENT

The Assistant Investments Manager presented the report. He reminded Members that the investment Regulations which came into effect in November 2016 required the previous Statement of Investment Principles to be replaced an Investment Strategy Statement. The draft ISS had been circulated to Members of the Local Pension Board, and their comments were set out in the table which he had just provided to Members. This is attached as Appendix 1 to these minutes. The ISS will be formally presented to the Local Pension Board at its next meeting in May.

A Member suggested that the table on page agenda 131 should be reformatted to clarify that the allocations to Developed Market Equities and Emerging Market Equities were included in the 50% overall allocation to Equities.

RESOLVED

1. To approve the new Investment Strategy Statement.
2. To note that the Statement will be revised following the Investment Review to be completed in 2017.
3. To note that in line with Regulations the draft Investment Strategy Statement has been circulated to the Pension Board for comment.

81 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report.

RESOLVED:

1. To note the recommendation as summarised in paragraph 4.2(1);
2. To note the Panel noting of the investment manager appointment decision as summarised in paragraph 4.3;
3. To note the minutes of the Investment Panel meeting on 22 February 2017 at Appendix 1 and Exempt Appendix 2.

82 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 31 DECEMBER 2016

The Assistant Investments Manager presented the report and summarised the key points. The funding level had improved by about 1% from 93% (recalibrated since Q3 report) to 94%, mainly because the return from assets had exceeded the increase in liabilities.

Mr Turner commented on the Mercer performance report. He said that unexpected improvement in the funding level had impacted on the options being looked at in the Investment Strategy Review. He would not recommend reducing the current level of currency hedging, given that Sterling was at a five-year low against the Dollar. Currency hedging had lost money, especially since the Brexit vote, but a knee-jerk reaction would not be appropriate. Relative returns of UK equity managers had been disappointing. As part of the Investment Strategy Review, he would recommend a health check on the structure of the equity portfolios. He would also recommend scaling back on equities by a “moderate amount”. Work was under way on a new investment monitoring report, which would move away from a focus on individual manager performance to the monitoring of overall strategy.

RESOLVED:

1. To note the information set out in the report;
2. To note LAPFF Quarterly Engagement Report at Appendix 4.

83 BUDGET AND CASH FLOW MONITORING 2016/17

The Finance and Systems Manager (Pensions) presented the report.

In reply to a question from a Member he said that it was expected that the full year Administration Costs would equal the budgeted cost. The variance currently reported was because of the timing of the report.

RESOLVED to note:

1. The administration and management expenditure incurred for 10 months to 31 January 2017;
2. The Cash Flow Forecast to 31 March 2017.

84 PENSION FUND ADMINISTRATION - BUDGET MONITORING 2016/17, PERFORMANCE INDICATORS FOR QUARTER ENDING 31 DECEMBER 2016 AND RISK REGISTER ACTION PLAN

The Pensions Manager presented the report.

He drew the attention of Members to the information given in section 6.4 about the introduction of new reports following the completion of the Task Workflow Project and the setting of new RAG standards. A high proportion of internal performance was shown as below standard on the current reports. This was a result of reduced staff availability and high workload during the period. Revised work targets and the appointment of additional officers the restructuring of Pensions Administration should lead to improvement against KPIs in future reports.

Workload remained high. Of the 6,067 cases outstanding a third were being held up by the need to wait for Regulations. The Employer Relations Team will be focussing on encouraging employers to submit information earlier and clarifying with them what information is required.

In reply to questions from Members he stated:

- up to now the 50/50 scheme did not appear to be working as intended; it had not reduced the level of opt-outs and was being taken up by some high earners
- the £250 penalty fine, issued to employers who breached the limit for data queries and who had not attended training, had been proposed in the Administration Strategy; the trigger level applied to performance at year end; in 2014/15 117 employers had breached the level, so the latest figure of 31 was a big improvement

[Shirley Marsh left the meeting at this point].

RESOLVED to note:

1. Membership data, Employer Performance and Avon Pension Fund Performance for the 3 months to 31 December 2016.
2. Progress and review of the TPR Data Improvement Plan.
3. Risk Register.

85 UPDATE ON LEGISLATION

The Pensions Manager presented the report.

RESOLVED to note:

1. The current position regarding the developments that could affect the administration of the Fund.
2. The current position regarding HM Treasury Exit Payments Legislation and potential timescales.
3. The response made to HM Treasury on Consultation for GMP Indexation.

86 WORKPLANS

The Investment Manager presented the report.

RESOLVED to note the workplans.

87 COMMITTEE UPDATE - VERBAL

[The Independent Advisor left the meeting.]

The Head of Business, Finance and Pensions addressed the Committee.

He advised that Ann Berresford, Independent Member, would soon complete her second consecutive term as a Member, and would therefore be leaving the Committee. Ann said that she had very much enjoyed her time as a Member. She

recalled that when she had joined the funding level had been 70%. It was a pleasure to realise how much the Fund had progressed since then. She hoped that pooling would be a success and contribute to enhanced performance for the Fund. The Committee expressed their thanks to her for her contribution and wished her well for the future.

At the invitation of the Head of Business, Finance and Pensions Members commented on the role of the Independent Advisor.

RESOLVED to note the update.

The meeting ended at 4.50 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	23 JUNE 2017	AGENDA ITEM NUMBER
TITLE:	ROLES & RESPONSIBILITIES OF MEMBERS, ADVISORS AND OFFICERS and GOVERNANCE FRAMEWORK	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Terms of Reference for Committee and Investment Panel Appendix 2 – Governance Compliance Statement		

1 THE ISSUE

- 1.1 This report is to remind members of the roles and responsibilities of members, advisors and officers of the Avon Pension Fund and the governance framework for the Fund as a whole.
- 1.2 The Terms of Reference for the Committee and Investment Panel are set out in Appendix 1. The Terms of Reference was approved by the Council at its meeting on 18 May 2017.
- 1.3 The Governance Compliance Statement has been updated to reflect that the Committee will have to nominate a member to the Oversight Board of Brunel Pensions Partnership.
- 1.4 The report invites members to nominate themselves to the Investment Panel. The term of appointment to the Panel is for one year; however, given the nature of the Panel's work, it is not expected that the membership will alter from year to year.
- 1.5 Members are invited to nominate themselves as the Fund's representative on the Local Authority Pension Fund Forum.
- 1.6 It should be noted that there maybe further changes to the Fund's governance arrangements as the transition of assets to BPP Ltd. begins from 2018 onwards.

2 RECOMMENDATION

The Committee:

- 2.1 Notes the:
 - a) Roles and responsibilities of the members, advisors and officers
 - b) Terms of Reference of the Committee and Investment Panel
- 2.2 Approves the Governance Compliance Statement
- 2.3 Agrees the membership of the Investment Panel
- 2.4 Agrees the member(s) to represent the fund on the Local Authority Pension Fund Forum.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations as this report is for information only.

4 ROLES & RESPONSIBILITIES

4.1 The members, advisors and officers all have definitive roles and responsibilities within the pension fund's governance structure.

The Committee and Investment Panel:

4.2 The Terms of Reference for the Committee, including the Investment Panel, as agreed by Council can be found in Appendix 1. These were revised by the Committee in March 2017 to reflect the impact of pooling on the governance arrangements.

4.3 The Committee's role is strategic in nature, setting the policy framework and monitoring compliance within that framework. Due to the wide scope of the Committee's remit, investment issues are delegated to the Investment Panel, (a sub-committee of the Committee) which explores the issues in greater detail before making decisions and/or recommendations to the Committee. The implementation of strategic decisions is delegated to Officers.

4.4 Membership of the Investment Panel is drawn from the voting members of the committee.

4.5 The Chair of the Committee is the Fund's current representative on the Shadow Oversight Board of the Brunel Pension Partnership (the pooling project).

4.6 Committee and Investment Panel meetings are held in open session and, where required, papers are taken in exempt session. Committee workshops are held to discuss strategic issues in greater depth as necessary.

4.7 Non-voting members are given full access to papers, meetings and workshops including internal training sessions.

4.8 Members are encouraged to undertake training to ensure they can discharge their responsibilities. The Pensions Regulator's (TPR) Code of Practice for public sector pension funds will require greater disclosure of member training and will require all members to attain a satisfactory level of knowledge in order to discharge their duties. As a result all committee members will be required to undergo the TPR Knowledge & Skills Toolkit for the public sector funds within the first year they are appointed to the committee.

4.9 The Committee Training plan for 2017-18 is continuously reviewed. It includes training sessions and workshops to support the committee agenda as well as wider knowledge and skills and is in addition to TPR Knowledge & Skills Toolkit.

Fund Advisors:

4.10 The guidance on preparing and maintaining an investment strategy statement in support of the LGPS (Management and Investment of Funds) Regulations 2016, regulation 7(2)(a) states "Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries." Regulation 7(2)(b) states that the Fund must "take and act on proper advice in assessing the suitability of their investment portfolio" and regulation 7(2)(e) states "When making investment decisions, administering authorities must take proper advice and act prudently"

- 4.11 The principles for effective decision-making for pension funds supports these regulations by setting out best practice standards for decision-making bodies (guidance for LGPS funds provided by CIPFA/CLG).

Principle 1: Effective decision-making - requires that “administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively... and those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive...”.

- 4.12 All advisory appointments are appointed under a separate procurement process which will follow the Council’s procurement policy.
- 4.13 The Fund appoints an Investment Consultant (Mercer) to provide investment advice to the fund to ensure that the Committee and/or Panel have all the relevant information before making a decision. The Committee’s agenda determines the advice provided by the consultant in addition to the ongoing monitoring of the Fund’s investment strategy and the managers’ performance.
- 4.14 In addition the Fund has an Independent Investment Advisor. The advisor is independent of the officers and investment consultant, their role being to ensure the members get all the appropriate advice and that the advice is adequately challenged.
- 4.15 The Fund appoints an Actuary (Mercer) to advise on all actuarial issues and to undertake valuations as required by the Local Government Pension Scheme Regulations 2013. Regulation 62(1) states that “An administering authority must obtain (a) an actuarial valuation “ and (b) “ a report by an actuary in respect of the valuation”.

Fund Officers:

- 4.16 The officers’ role within the governance structure is to ensure that all decision-making complies with the regulations, that the Fund fulfils its statutory requirements, and that all information regarding investment, financial and administrative issues is provided to the Committee/Panel. In addition, the officers are responsible for implementing Fund policy. The Council’s Section 151 Officer is responsible for ensuring that the Fund complies with the financial regulations and that an adequate inspection framework, provided by internal and external audit, is in place. The Council’s Monitoring officer is responsible for the legal aspects of the Fund and the Committee.
- 4.17 The Section 151 Officer has delegated powers regarding urgent actions, and these would be exercised having consulted with the Chair of the Committee where possible. For investment policy issues the Section 151 Officer will also consult with the Chair of the Investment Panel where possible.

5 GOVERNANCE COMPLIANCE STATEMENT

- 5.1 The LGPS regulations require the Fund to publish a Governance Compliance Statement when there is a material change. The statement has been updated to reflect the pooling of the investments, specifically that the Committee must nominate a member to represent the Fund on the Oversight Board of Brunel Pension Partnership.
- 5.2 The Governance Compliance Statement will need to be reviewed once the assets transfers to BPP Ltd.
- 5.3 The Committee are asked to approve the Statement in Appendix 2.

6 NOMINATIONS TO INVESTMENT PANEL

- 6.1 Committee co-opted members with voting rights are requested to nominate themselves to the Investment Panel. The term of appointment to the Panel is for one year; however, it is not envisaged that the Panel membership should change each year.
- 6.2 The Panel shall comprise a maximum of 6 voting Members of the Committee, 3 of whom shall be B&NES Councillors. Membership shall include the Chairman of the APFC and /or the Vice- Chair. The appointment of B&NES Councillors to the Panel is subject to the rules of political proportionality of the Council which does not apply to the non-B&NES members of the Panel. Political proportionality for the B&NES members of 2 Conservative Members, 1 Liberal Democrat Member (with a Conservative Group nominee chairing the Panel) on the Panel was agreed by B&NES Council at its meeting on 18 May 2017.
- 6.3 It is the responsibility of the Investment Panel members to nominate the Vice-Chair of the Panel if they wish to have one; either per meeting, or for the ensuing Council year. This will be done at the first Panel meeting.
- 6.4 Members are invited to nominate themselves to the Panel.

7 NOMINATIONS TO REPRESENT THE FUND AT THE LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) MEETINGS

- 7.1 The Fund is a member of LAPFF, a collaborative organisation acting on behalf of LGPS funds to promote their long term investment interests and to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest. LAPFF undertakes significant engagement with companies on governance, environmental and social issues that could materially affect the financial performance of a company. It also advises its members on contentious voting issues and sponsors or supports shareholder resolutions where it believes it is the most effective way to implement change.
- 7.2 The Forum holds 4 meetings a year. Committee members supported by officers are encouraged to attend these meetings. Councillor Mike Drew, Richard Orton and Councillor Steve Pearce have represented the fund at these meetings during the past year. Members are invited to nominate themselves to represent the fund at these meetings (there can be up to two member representatives from the Fund attending any meeting).

8 RISK MANAGEMENT

- 8.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

9 EQUALITIES

- 9.1 For information only.

10 CONSULTATION

- 10.1 Not relevant.

11 ISSUES TO CONSIDER IN REACHING THE DECISION

- 11.1 The relevant information is set out in the report.

12 ADVICE SOUGHT

12.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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TERMS OF REFERENCE

1 Avon Pension Fund Committee

Bath and North East Somerset Council, in its role as administering authority, has executive responsibility for the Avon Pension Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee which is the formal decision making body for the Fund.

Function and Duties

To discharge the responsibilities of Bath and North East Somerset Council in its role as lead authority for the administration of the Avon Pension Fund. These include determination of all Fund specific policies concerning the administration of the Fund, investing of Fund monies and the management of the Fund's solvency level. In addition, the Committee is responsible for all financial and regulatory aspects of the Fund. At all times, the Committee must discharge its responsibility in the best interest of the Avon Pension Fund.

The key duties in discharging this role are:

1. Determining the investment strategy and strategic asset allocation.
2. Determining the pensions administration strategy.
3. Making arrangements for management of the Fund's investments in line with the strategic policy.
4. Monitoring the performance of investments, investment managers, scheme administration, and external advisors.
5. Approving and monitoring compliance of statutory statements and policies required under the Local Government Pension Scheme Regulations.
6. Approving the Pension Fund's Statement of Accounts and annual report.
7. Approving the annual budget for the Pension Board subject to the approval of Pension Board's workplan.
8. Commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations.
9. Making representations to government as appropriate concerning any proposed changes to the Local Government Pension Scheme.
10. Nominating a representative from the Committee to represent the Committee on the Oversight Board for Brunel Pension Partnership.

Delegations

In discharging its role the Committee can delegate any of the above or implementation thereof to the Sub-Committee (referred to as the Investment Panel) or Officers. The current delegations are set out in Sections 2 & 3 below.

Membership of the Committee

Voting members (12)	5 elected members from B&NES (subject to the rules of political proportionality of the Council) 2 independent members 1 elected member nominated from each of Bristol City Council, North Somerset Council and South Gloucestershire Council 1 nominated from the Higher and Further education bodies 1 nominated by the trades unions
Non-voting members (4)	1 nominated from the Parish Councils Up to 3 nominated from different Trades Unions

The Council will nominate the Chair of the Committee.

Meetings

Meetings will be held at least quarterly. Meetings will be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

Quorum

The quorum of the Committee shall be 5 voting members, who shall include at least one Member who is not a Bath & North East Somerset Councillor.

Substitution

Named substitutes to the Committee are allowed.

2 Investment Panel

The role of the Avon Pension Fund Committee Investment Panel shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

The Investment Panel will:

1. Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.
2. Review the Statement of Investment Principles and submit to Committee for approval.
3. Report regularly to Committee on the performance of investments and matters of strategic importance

and have delegated authority to:

4. Approve and monitor tactical positions within strategic allocation ranges.
5. Approve investments in emerging opportunities within strategic allocations.

6. Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.
7. Approve amendments to investment mandates within existing return and risk parameters.
8. Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.
9. Delegate specific decisions to Officers as appropriate.

Panel Membership

The Panel shall comprise a maximum of 6 voting Members of the Avon Pension Fund Committee, of which 3 shall be Bath and North East Somerset Councillors. The membership shall include the Chairman of the Committee and /or the Vice- Chair and 4 other Members (or 5 if the Chair or Vice-Chairperson is not a member of the Panel).

Note: The appointment of Bath and North East Somerset Councillors to the Panel is subject to the rules of political proportionality of the Council.

Members shall be appointed to the Panel for a term of one year.

The Council will nominate the Chair of the Panel.

Panel Meetings

Though called a "Panel", it is an ordinary sub-committee of the Committee. Accordingly, meetings must be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

The Panel shall meet at least quarterly ahead of the Committee meeting on dates agreed by Members of the Panel.

Panel Quorum

The quorum of the Panel shall comprise 3 Members, who shall include at least one Member who is not a Bath & North East Somerset Councillor.

Panel Substitution

Substitutes for the Panel must be members of Committee or their named Committee substitute.

Panel Minutes

Minutes of Panel meetings (whether or not approved by the Panel) shall appear as an item on the next agenda of the meeting of the Committee that follows a meeting of the Panel.

3 Officer Delegations

Officers are responsible for:

1. Day to day implementation and monitoring of the investment, administration, funding strategies and related policies.
2. Appointment of specialist advisors to support the Committee in discharging its functions.
3. The Section 151 Officer has authority to dismiss investment managers, advisors and 3rd party providers if urgent action is required (does not refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).
4. The Section 151 Officer has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount
5. Under its wider delegated powers, the Section 151 Officer has delegated authority to effectively manage the liabilities of the Fund including the recovery of debt.
6. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.
7. Through delegations from Council, the S151 Officer has authority to progress the development of Brunel Pension Partnership pool.

Approved by Avon Pension Fund Committee 24 March 2017

Avon Pension Fund - Governance Compliance Statement

The Local Government Pension Scheme Regulations 2013 (as amended) require the administering authority to prepare a Governance Compliance Statement. This statement should be read in conjunction with the Avon Pension Fund Terms of Reference.

Statutory Governance Principles	Compliance status and justification of non-compliance
A - Structure	Compliant
<p>a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p> <p>b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</p> <p>c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p>	<p>Bath & North East Somerset Council, as administering authority, has executive responsibility for the Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee (APFC) which is the formal decision making body for the Fund. The committee is subject to Terms of Reference as agreed by the Council, the Council's standing orders and financial regulations including the Codes of Practice.</p> <p>The APFC consists of 12 voting members, viz:</p> <ul style="list-style-type: none"> - 5 elected members from Bath & North East Somerset Council - 3 elected members from the other West Of England unitary councils - 1 nominated by the trades unions - 1 nominated by the Higher/Further education bodies - 2 independent members <p>and 4 non-voting members, viz:</p> <ul style="list-style-type: none"> - 3 nominated by the trades unions - 1 nominated by the Parish/Town Councils <p>The Avon Pension Fund has a sub-committee, the Investment Panel, to consider matters relating to the management and investment of the assets of the Fund in greater detail. The Investment Panel is made up of members of the main committee. The Panel has delegated powers to take decisions on specific issues and otherwise makes recommendations to the Committee. The minutes of Investment Panel meetings form part of the main committee agenda.</p>

- d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.
- e) The terms, structure and operational procedures relating to the Avon Pension Fund Pension Board have been established

Every member of the Investment Panel is a member of the main committee.

The Board's remit is to assist the administering authority to

- (i) secure compliance with the LGPS regulations, any other legislation relating to the governance and administration of the Scheme, the requirements imposed by the Pensions Regulator in relation to the Scheme and
- (ii) ensure the effective and efficient governance and administration of the Scheme.

The Pension Board comprises 7 members, 3 employee members, 3 employer members and an independent chairperson. Employer and employee members have voting rights.

The Board will publish an annual report to Council containing any recommendations on process or governance. The Board will report any material concerns to the Strategic Director of Resources.

Board minutes will be circulated to the administering authority (the pension committee), S151 Officer and Monitoring Officer. The Board is required to report breaches of law or material (and not actioned) breaches of the Code of Practice to the Pensions Regulator.

Where any breach of duty is committed or alleged to have been committed by the Administering Authority (the Pensions Committee) the Board shall:

1. Discuss the breach or alleged breach that is identified with Pension Committee Chair and the proposed actions to be taken by the Board
2. Enable the Chair of the Committee to review the issue and report back to the Board on the breach
3. The Board will determine action and if sufficiently material will report the

<p>f) The Avon Pension Fund is represented on the governance arrangements of Brunel Pension Partnership.</p>	<p>breach to the Pensions Regulator or the Scheme Advisory Board as set out in the regulations.</p> <p>The Fund is establishing a company with 9 other LGPS funds which will implement the investment strategies of all 10 funds (Brunel Pension Partnership). The partnership is still operating in shadow form. The Chair of the APFC is a member of the Shadow Oversight Board. Once the pool becomes operational, the APFC will nominate its representative to the Oversight Board.</p>
<p>B – Representation</p>	<p>Partial Compliance</p>
<p>a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers , e.g. admission bodies); ii) scheme members (including deferred and pensioner scheme members); iii) where appropriate, independent professional observers; 	<p>There are 9 voting members representing the employer bodies and 1 non-voting member representing the Parish /Town Councils. Admission Bodies are not formally represented within the committee structure it is difficult from a purely practical perspective to have meaningful representation from such a diverse group of employers. The appointment of independent members was, in part, to provide representation on the committee independent of all the employing bodies. All employing bodies are included in all consultation exercises that the Fund undertakes with its stakeholders.</p> <p>There are arrangements in place for the public, including employing bodies and members of the Avon Pension Fund to make representations to the committee at the committee meetings.</p> <p>There are 4 trades union representatives (1 with voting rights and 3 non-voting), nominated by the individual trades unions on the committee. These committee members also represent the deferred and pensioner members.</p> <p>The Fund has not appointed an independent professional observer. The committee has procedures in place to monitor and control risk and there is</p>

<p>iv) expert advisors.</p> <p>b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	<p>significant external oversight of the Fund, committee and decision-making process. The Fund has an external Independent Investment Advisor who attends all committee and panel meetings and ensures relevant information and advice is provided to the Committee. Furthermore, two members are appointed to the committee independent of the administering authority and other stakeholders to strengthen the independence of the governance process. Lastly the pension fund and its governance processes are scrutinised annually by the external audit.</p> <p>The Fund's independent investment advisor attends all meetings. The Fund's investment consultant attends all committee and panel meetings and other expert advisors attend on an adhoc basis when appropriate.</p> <p>All members of the committee are treated equally in terms of access to papers, meetings and training. Although some members do not have voting rights, they are given full opportunity to undertake training and contribute to the decision making process.</p>
<p>C – Selection and role of lay members</p>	<p>Compliant</p>
<p>a) That the committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p> <p>b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p>The Fund has separate job descriptions for the voting and non-voting members, which set out the role and responsibilities for each position within the committee. These are circulated to the relevant bodies prior to members being appointed to the committee.</p> <p>Declarations of interest is a standing item on every committee agenda.</p>
<p>D – Voting</p>	<p>Compliant</p>
<p>a) The policy of individual administering authorities</p>	<p>The Fund has a clear policy on voting rights and has extended the voting</p>

on voting rights is clear and transparent, including justification for not extending voting rights to each body or group on main LGPS committees.	franchise to non-administering authority employers and scheme member representatives.
E – Training/Facility time/ Expenses	Compliant
<p>a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.</p> <p>b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</p> <p>c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.</p>	<p>The Fund has a clear policy on training and maintains a training log. The costs of approved external training courses are paid by the Fund for all members. All members are invited to workshops organised by the Fund. Expenses are paid in line with the allowances scheme for each employer/stakeholder.</p> <p>See above.</p> <p>The Fund requires new members without prior experience of the Local Government Pension Scheme to attend a customised training course. A formal training plan is not set on an annual basis as it is responsive to the needs of the committee agenda. A training log is maintained.</p>
F – Meetings (frequency/quorum)	Compliant
<p>a) That an administering authority's main committee or committees meet at least quarterly.</p> <p>b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</p> <p>c) That administering authorities who does not include lay members in their formal governance</p>	<p>The committee meetings are held quarterly.</p> <p>The Investment Panel meets at least quarterly, synchronised to occur ahead of the main committee meetings.</p> <p>Lay members are included in the formal arrangements.</p>

arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	
G – Access	Compliant
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels has equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members of the committee have equal access to meeting papers and advice.
H - Scope	Compliant
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference include all aspects of benefits administration and admissions to the Fund.
I – Publicity	Compliant
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	All statutory documents including the Governance Compliance Statement are made available to the public via the Avon Pension Fund's website or are available on request from the Investments Manager. A summary of the governance compliance statement is included in the Annual Report.

To be approved by Avon Pension Fund Committee on 23 June 2017

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	23 JUNE 2017	AGENDA ITEM NUMBER
TITLE:	DRAFT STATEMENT OF ACCOUNTS FOR 2016 / 2017	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 Draft Statement of Accounts for the year to 31 March 2017		

1. THE ISSUE

The Draft Statement of Accounts for the Avon Pension Fund for the year to 31 March 2017 is attached as **Appendix 1**.

- 1.1. The Draft Statement of Accounts for the year to 31 March 2017 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts are now subject to external audit.
- 1.2. In accordance with the Accounts and Audit (England) Regulations 2015 the Draft Statement of Accounts for the year to 31 March 2017 must be signed off by the Council's Section 151 Officer by the 30 June. The Final Statement of Accounts will be presented to the Corporate Audit Committee at its meeting on 12 September 2017 as the Audit Committee is charged with the governance of the pension fund. The Pension Fund Committee will be asked to note The Final Statement of Accounts at its meeting on September 22nd.

2. RECOMMENDATION

That the Committee notes

- 2.1 The Draft Statement of Accounts for the year to 31 March 2017 for audit.**

3. FINANCIAL IMPLICATIONS

- 3.1. There is a requirement that the Avon Pension Fund Statement of Accounts are included in the Council's accounts and presented to the Corporate Audit Committee.

4. COMMENT ON THE DRAFT STATEMENT OF ACCOUNTS

- 4.1. The accounts show an increase in the total net assets of the Fund from just over £3.7bn to just over £4.3bn. This increase was entirely due to the rise in the market value of investments.

- 4.2. The highlights of the Draft Final accounts are:

- a) Total net assets of the fund are valued at £4,354m made up of investment assets of £4,358m less net Current Assets of (£3.997m). This is an increase of £617m over the 31 March 2016 value of £3,737m. The increase is the result of increased investment asset values offset to a small extent by the net costs of the Fund not covered by Investment Income.
- b) Contributions receivable were just £2.8m higher than in 2015/16. This was partly due to increased employer contribution rates as part of the final year of the phasing in of the 2013 valuation rates. Augmentation contributions paid by employers on early retirements were also higher than the unusually low 2015/16 figure. These factors were partly offset by the reduction in the Deficit Funding contributions in 2016/17 when compared with the 2015/16 figure that was unusually high due to the receipt of a £10.7m termination payment from an employer exiting the Fund.
- c) In the Fund Account "Net Additions from dealings with members" is again a negative figure, being (£15.2m). This is largely as a result of advance deficit recovery payments following the 2013 valuation being made in 2014/15. As a result several major employers did not need to make any deficit recovery payments in 2015/16 or 2016/17. Without this effect the "Net Additions from dealings with members" figure would have been closer to zero, with contributions received offsetting the cost of benefits paid.
- d) The increase in Benefits Payable when compared to 2015/16 reflects the increased number of retired members.
- e) Payments to and on account of leavers is lower than in 2015/16. This is because the 2015/16 figure included £2.5m in respect of the group transfer out of former employees of the Probation Service to Greater Manchester Pension Fund.
- f) Investment Income as reported in the Fund Account has increased from the 2015/16 level. However the Investment Income figures do not include the income from pooled funds that accumulate income within the fund rather than distribute to investors.
- g) The Net Asset Statement shows the Fund holding £67.79m in cash deposits as at 31 March 2017. This is a reduction from the abnormally high level of £209.5m at 31 March 2016 that included £135m that was in the process of being transferred for investment in infrastructure.

- h) The £11.2m of debtors included in the Current Assets at 31 March 2017 is mainly made up of contributions that relate to the year to 31 March 2017 but were not due for payment until April 2017. The comparable figure at 31st March 2016 was unusually low due to the payment of a high value of contributions due in April 2016 being paid earlier than required.
- i) Current liabilities as at 31st March 2017 include a provision for fees that have been accrued but are subject to phased payments or are not payable until the related assets are realised. The increase in this provision each year is due to the long deferment of actual payment. These performance fees remain subject to possible variation as a result of future performance.
- j) Management Expenses (detailed in Note 7) are £3.1m more than in 2015/16 mainly due to the rise in investment asset values leading to increased Investment Management expenses. The increased administrative costs largely reflect the increased level of resources required to manage the increase in the number of employers and the need to maintain data quality. It is also partly the result of changes in Employer's National Insurance contributions rates. Oversight and Governance costs are also higher, largely due to the cost of the Triennial Valuation. Other increases in actuarial costs incurred as a result of increased conversions to academy status and outsourcings are offset by increased recharges.

5. RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6. EQUALITIES

6.1 An equalities impact assessment is not necessary.

7. CONSULTATION

7.1 N/a

8. ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 Are contained in the report.

9. ADVICE SOUGHT

9.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Martin Phillips Finance & Systems Manager (Pensions) Tel: 01225 395369.
Background papers	Various Accounting Records
Please contact the report author if you need to access this report in an alternative format	

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PENSION FUND ACCOUNTS 2016/17

Statement of Accounts

Introduction

- 1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (the Fund). The accounts cover the financial year from 1 April 2016 to 31 March 2017.
- 1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2016/17 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.7. They do not take account of liabilities to pay pensions and other benefits in the future.
- 1.3 The accounts are set out in the following order:

Statement of Accounting Policies which explains the basis of the figures in the accounts.

Fund Account which discloses the size and nature of financial additions to and withdrawals from the Fund during the accounting period and reconciles the movements in the net assets to the Fund Account.

Net Assets Statement which discloses the size and disposition of the net assets of the Fund at the end of the accounting period.

Notes to the Accounts which give supporting details and analysis concerning the contents of the accounts, together with information on the establishment of the Fund, its membership and actuarial position.

- 1.4 In compliance with CIPFA guidance the presentation of the accounts includes the following changes from previous years:-

In note 8 Income from pooled investments has been analysed between Property and non-property investments.

In note 22 Financial Instruments for pooled investments are split between property and non-property investments.

Note 24 includes an analysis of the sensitivity of the valuations of Level Three assets in the Fair Value Hierarchy and a reconciliation of the change in value measurements within level three over the year. Some of the previous year figures in note 24 have been re-worked to be on a consistent basis with the 31 March 2017 figures. In the Currency Risk sensitivity analysis assets that are fully hedged are not shown because they have zero sensitivity.

Actuarial Valuation

- 1.5 As required by the Local Government Pension Scheme Regulations 2013 an actuarial valuation of the Fund was carried out as at 31 March 2016. The market value of the Fund's assets at the valuation date was £3,737 million. The Actuary estimated that the value of the Fund was sufficient to meet 86% of its expected future liabilities of £4,355 million in respect of service completed to 31 March 2016.
- 1.6 At the 2016 valuation the average deficit recovery period for the Fund overall was set at 16 years.
- 1.7 The 2016 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions used to set employers' contributions, are set out in the table below:

	Past service liabilities	Future service liabilities
Rate of Discount	4.4% per annum	4.95% per annum
Rate of pensionable pay inflation	3.7% per annum	3.7% per annum
Rate of price inflation	2.2% per annum	2.2% per annum

- 1.8 The 2016 triennial valuation was completed during 2016/17 using market prices and membership data as at 31 March 2016. The 2016 valuation set the employer contribution rates for future service and deficit recovery payments (expressed as a monetary amount payable annually) with effect from 1 April 2017. Historically the discount rate used has been based on gilt yields. However, having taken advice from the Scheme Actuary, the discount rate used in the 2016 valuation is based on CPI plus a real investment return of 2.2% p.a. which better reflects the expected return of the investment portfolio in the long term compared to the gilts basis.
- 1.9 The Actuary has estimated that the funding level as at 31 March 2017 has risen to 95% from 86% at 31 March 2016 based on the 2016 valuation financial assumptions. The improvement is due to strong investment returns offsetting a more modest rise in the value of the liabilities.
- 1.10 Note 15 to the accounts shows the actuarial present value of promised retirement benefits for the purposes of IAS26 using the assumptions and methodology of IAS 19. The discount rate referenced for IAS19 is the Corporate Bond yield. The discount rate used for the Actuarial Valuation references the Fund's investment strategy.
- 1.11 The Fund's Funding Strategy Statement can be found on the Fund's website www.avonpensionfund.org.uk (search Funding Strategy Statement).

Investment Strategy Statement

- 1.12 The Fund's Investment Strategy Statement (ISS) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 can be found on the Fund's website www.avonpensionfund.org.uk (search Investment Strategy Statement). The first statement was published for 1 April 2017 and it includes a statement on the Fund's approach to pooling its investment assets as required under the regulations.

Statement of Accounting Policies

Basis of Preparation

2.1 Except where otherwise stated, the accounts have been prepared on an accruals basis, i.e. income and expenditure is recognised as it is earned or incurred, not as it is received or paid. The accounts have been prepared on a going concern basis.

Investments

2.2 Investments are shown in the accounts at market value, which has been determined as follows:

- i. Quoted Securities have been valued at 31 March 2017 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation. All these valuations are subject to the custodian's and fund manager's internal control reports and external auditors.
- ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
- iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2017.
- iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2017.
- v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
- vi. Overseas properties are valued as at 31 December 2016 with adjustments made for any reduction or addition to the level of investment.
- vii. Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
- viii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
- ix. Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
- x. The Fund's surplus cash is managed separately from the surplus cash of B&NES Council and is treated as an investment asset.

Contributions

2.3 Contributions represent those amounts receivable from the employing bodies in respect of their own and their pensionable employees' contributions. Employers' contributions are determined by the Actuary on the basis of triennial valuations of the Fund's assets and liabilities and take into account the Funding Strategy Statement set by the administering authority. The last such valuation was at 31 March 2016. Currently employer contribution rates range from 7.0% to 30.8%. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme Regulations 2013. The employee contribution rates range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017.

2.4 Normal contributions both from members and the employer are accounted for on an accruals basis in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Benefits, Refunds of Contributions and Cash Transfer Values

2.5 From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

2.6 Benefits payable and refunds of contributions have been brought into the accounts as they fall due.

2.7 Cash Transfer Values are those sums paid to or received from other pension schemes and relate to previous periods of pensionable employment. Cash Transfer Values have been included in the accounts on the basis of the cheque payment date or "Bath & North East Somerset Council cash office received" date. Accruals are only made when it is certain that a transfer is to take place.

2.8 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year. The charges are index linked to pension's increases to ensure that the Fund receives the full value.

Investment Income

2.9 Dividends and interest have been accounted for on an accruals basis. Some of the income on pooled investments is accumulated and reflected in the valuation of the units. Some of the income on pooled investments (mainly property) is distributed.

Investment Management & Administration

2.10 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 permit Bath & North East Somerset Council to charge administration costs to the Fund. A proportion of relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business.

2.11 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. A provision has been made for performance fees that have been incurred but are subject to phased payments or are not to be paid until the realisation of the related investments. These remain subject to change as a consequence of future performance. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

2.12 The Fund is an exempt approved fund under the Income and Corporation Taxes Act 1988 and is therefore not liable to UK income tax on investment income or to capital gains tax. As Bath & North East Somerset Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on

investment expenses. For taxation of overseas investment income please see note 3 iv. in the Notes to the Accounts.

Use of Accounting Estimates

2.13 The Statement of Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking in to account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty actual results could be materially different from the assumptions and estimates.

Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 15) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 24.

Events After the Balance Sheet Date

2.14 The Statement of Accounts is adjusted to reflect events that occur after the end of the reporting period that provide evidence of conditions that existed at the end of the reporting period, should they occur. The Statement of Accounts is not adjusted to reflect events that are indicative of conditions that arose after the reporting period, but where material, disclosure is made in the notes of the nature and estimated financial effect of such events.

Financial Instruments

2.15 Financial Assets and Liabilities are recognised on the Balance Sheet when the Fund becomes a party to the contractual provisions of a financial instrument and are measured at fair value or amortised cost.

Fund Account
For the Year Ended 31 March 2017

	Notes	2016/17 £'000	2015/16 £'000
<i>Dealings with members, employers and others directly involved in the fund</i>			
Contributions Receivable	4	146,347	143,578
Transfers In	16	2,911	4,170
		<hr/> 149,258	<hr/> 147,748
Benefits Payable	5	159,775	155,310
Payments to and on account of Leavers	6	4,717	7,861
		<hr/> 164,492	<hr/> 163,171
<i>Net additions/ (withdrawals) from dealings with members</i>		(15,234)	(15,423)
Management Expenses	7	<hr/> 24,498	<hr/> 21,334
<i>Net additions/ (withdrawals) from dealings with members</i>		(39,732)	(36,757)
<i>Returns on Investments</i>			
Investment Income	8	29,425	24,399
Profits and losses on disposal of investments and change in value of investments.	9	627,155	(85,504)
<i>Net Returns on Investments</i>		<hr/> 656,580	<hr/> (61,105)
<i>Net Increase in the net assets available for benefits during the year</i>		<hr/> 616,848	<hr/> (97,862)
<i>Opening Net Assets of the Fund</i>		3,736,930	3,834,792
<i>Closing Net Assets of the Fund</i>		<hr/> 4,353,778	<hr/> 3,736,930

Net Assets Statement at 31 March 2017

	Note	31 March 2017		31 March 2016	
		£'000	%	£'000	%
INVESTMENT ASSETS					
Equities		750,053	17.2	598,343	16.0
Diversified Growth Funds		375,391	8.6	360,928	9.7
Infrastructure		256,003	5.9	-	-
Index Linked securities : Public Sector		509,172	11.7	433,798	11.6
Pooled investment vehicles :-					
- Property : Unit Trusts		135,309	3.1	132,549	3.6
: Unitised Insurance		52,677	1.2	62,554	1.7
: Other Managed Funds		192,923	4.4	171,811	4.6
Property Pooled Investment Vehicles		<u>380,909</u>		<u>366,914</u>	
- Non Property : Unitised Insurance		769,043	17.7	710,765	19.0
: Other Managed Funds		1,238,965	28.5	1,099,271	29.4
Non Property Pooled Investment Vehicles		<u>2,008,008</u>		<u>1,810,036</u>	
Cash deposits		67,712	1.6	209,518	5.6
Other Investment balances		6,103	0.1	3,748	0.1
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		5,075	0.1	(40,415)	(1.1)
Derivative Contracts: FTSE Futures		(53)	0.0	(44)	0.0
Other Investment balances		(598)	(0.0)	(394)	(0.0)
TOTAL INVESTMENT ASSETS	10	<u>4,357,775</u>		<u>3,742,432</u>	
Net Current Assets					
Current Assets	12	11,255	0.3	7,679	0.2
Current Liabilities	12	(15,252)	(0.4)	(13,181)	(0.4)
Net assets of the scheme available to fund benefits at the period end		<u>4,353,778</u>	100	<u>3,736,930</u>	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2017.

Notes to the Accounts - Year Ended 31 March 2017

1, GENERAL

The Fund is administered by Bath & North East Somerset Council under arrangements made following the abolition of the former Avon County Council on 31 March 1996.

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 25.

Employers' contributions are payable at the rate specified for each employing authority by the Fund's actuary. The employees' contribution rate is payable in accordance with the Local Government Pension Scheme Regulations 2013 as amended.

2, MEMBERSHIP

Membership of the Fund at the year-end was as follows:-

	31 March 2017	31 March 2016
Employed Members	36,213	37,899
Pensioners	29,464	28,079
Members entitled to Deferred Benefits	41,279	40,711
TOTAL	106,956	106,689

A further 491 ex-members whose membership was for up to 2 years before 1 April 2004 or up to 3 months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified.

3, TAXATION

i. Value Added Tax

The Fund's administering authority Bath & North East Somerset Council is reimbursed VAT by H. M. Revenue and Customs and the accounts are shown exclusive of VAT.

ii. Income Tax

The Fund is a wholly exempt fund and some UK income tax is recoverable from HM Revenue and Customs. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax.

iii. Capital Gains Tax

No capital gains tax is chargeable.

iv. Taxation of Overseas Investment Income

The Fund receives interest on its overseas government bond portfolio gross, but a variety of arrangements apply to the taxation of interest on corporate bonds and dividends on overseas equities.

4, CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

	2016/17		2015/16	
	£'000		£'000	
Employers' normal contributions				
Scheduled Bodies	69,518		63,792	
Administering Authority	8,610		8,008	
Admission Bodies	7,520	85,648	7,508	79,308
Employers' deficit Funding				
Scheduled Bodies	14,022		12,336	
Administering Authority	-		-	
Admission Bodies	710	14,732	11,406	23,742
Total Employer's normal & deficit funding		100,380		103,050
Employers' contributions- Augmentation				
Scheduled Bodies	6,265		2,071	
Administering Authority	1,007		319	
Admission Bodies	155	7,427	178	2,568
Members' normal contributions				
Scheduled Bodies	31,126		30,374	
Administering Authority	4,008		3,981	
Admission Bodies	2,792	37,926	2,984	37,339
Members' contributions towards additional benefits				
Scheduled Bodies	484		463	
Administering Authority	104		82	
Admission Bodies	26	614	76	621
Total		146,347		143,578

The 2015/16 Employer's Deficit Funding for Admission Bodies includes a £10.7m termination payment from an employer exiting the Fund.

Deficit funding contributions have been paid by employers in respect of the recovery of their deficit relating to past service.

The Members' contributions towards additional benefits above represent members' purchase of added years or additional benefits under the Scheme. Augmentation contributions are paid by employers to meet the cost of early retirements.

A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with The Equitable Life Assurance Society or Friends Life on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in Note 18.

5, BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

	2016/17 £'000	2015/16 £'000
Retirement Pensions	129,796	126,126
Commutation of pensions and Lump Sum Retirement Benefits	27,443	26,158
Lump Sum Death Benefits	2,536	3,026
	<u>159,775</u>	<u>155,310</u>

Analysis of Benefits Payable by Employing Body:-

	2016/17 £'000	2015/16 £'000
Scheduled & Designating Bodies	131,452	127,949
Administering Authority	16,496	15,026
Admission Bodies	11,827	12,335
	<u>159,775</u>	<u>155,310</u>

6, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2016/17 £'000	2015/16 £'000
Leavers	£'000	£'000
Refunds to members leaving service	1,165	672
Individual Cash Transfer Values to other schemes	2,890	4,628
Group Transfers	662	2,561
	<u>4,717</u>	<u>7,861</u>

7, MANAGEMENT EXPENSES

Costs incurred in the management and administration of the Fund are set out below.

	2016/17 £'000	2015/16 £'000
Administrative Costs	1,774	1,540
Investment Management Expenses	21,409	18,779
Oversight & Governance Costs	1,315	1,015
	<u>24,498</u>	<u>21,334</u>
Further Analysis of Management Expenses:-		
Administrative Costs		
Management costs	1,167	959
Administration and Processing	459	502
Service from Administrating Body	346	352
Fees and Income	(198)	(273)
	<u>1,774</u>	<u>1,540</u>
Investment Management Expenses		
Fund Manager Base Fees	16,510	15,017
Fund Manager Performance Fees	3,012	1,964
Investment Transaction Costs	1,760	1,690
Global custody	127	108
	<u>21,409</u>	<u>18,779</u>
Oversight & Governance Costs		
Management costs	550	469
Specialist advice and Governance	1,062	713
Actuarial recharges	(334)	(204)
Audit fees	37	37
	<u>1,315</u>	<u>1,015</u>
	<u>24,498</u>	<u>21,334</u>

Fund Manager Performance Fees include fees that have been accrued but are subject to phased payment or not due to be paid until the realisation of the related assets. Unpaid fees remain subject to variation as a result of future performance. Total fund manager fees include management charges for pooled investments that are settled directly within the pooled vehicles in accordance with the investment management agreement.

Investment transaction costs do not include the underlying transaction costs within pooled funds.

Management costs in Oversight & Governance Costs include investments, actuarial and accounting staff costs.

8, INVESTMENT INCOME

	2016/17	2015/16
	£'000	£'000
Interest from fixed interest securities	-	1,754
Dividends from equities	19,815	15,890
Income from Index Linked securities	4,143	2,461
Income from pooled Property investments	5,067	3,767
Income from other pooled investment vehicles	63	55
Interest on cash deposits	265	330
Other - Stock lending	72	142
	29,425	24,399

The Fund has an arrangement with its custodian (BNY Mellon) to lend eligible securities from its portfolio to third parties in return for which the third parties pay fees to the fund. The third parties provide collateral to the Fund which is held during the period of the loan. This stock lending programme was introduced with effect from July 2004. The Fund may terminate any loan of securities by giving notice of not less than the standard settlement time for those securities.

The value of the stock on loan as at 31 March 2017 was £10.3 million (31 March 2016 £7.3m), comprising of equities and sovereign debt. This was secured by collateral worth £11.0 million comprising equities and sovereign debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

9, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at 31/03/16 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31/03/17 £'000
Equities	598,344	326,609	(300,194)	125,294	750,053
Index linked Securities	433,798	24,017	(18,586)	69,943	509,172
Pooled Investments -					
- Property	366,914	39,244	(51,767)	26,518	380,909
- Non Property	2,170,963	418,803	(446,451)	496,086	2,639,401
Derivatives	(40,459)	292,558	(135,312)	(111,764)	5,023
	3,529,560	1,101,231	(952,310)	606,077	4,284,558
Cash Deposits	209,518	514,449	(658,837)	2,582	67,712
Net Purchases & Sales		1,615,680	(1,611,147)	4,533	
Investment Debtors & Creditors	3,354			2,151	5,505
<u>Total Investment Assets</u>	3,742,432				4,357,775
Current Assets	(5,502)			1,505	(3,997)
Less Net Revenue of Fund				10,307	
Total Net Assets	3,736,930			627,155	4,353,778

The **Change in Market Value** of investments comprises all gains and losses on Fund investments during the year, whether realised or unrealised.

The **Change in Market Value** for cash deposits represents net gains on foreign currency deposits and foreign exchange transactions during the year.

Derivatives. The purchases and sales of derivatives are shown at the values of the realised profits and losses of the net derivatives transactions.

Change in Total Net Assets 2015/16

Change in Market Value of Investments	Value at 31/03/15 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31/03/16 £'000
Fixed Interest Securities	111,675	10,408	(120,275)	(1,808)	-
Equities	603,222	360,901	(353,625)	(12,154)	598,344
Index linked Securities	238,961	222,236	(29,813)	2,414	433,798
Pooled Investments -					
- Property	315,668	100,975	(83,810)	34,081	366,914
- Non Property	2,474,380	421,380	(682,111)	(42,686)	2,170,963
Derivatives	2,026	188,758	(157,550)	(73,693)	(40,459)
	3,745,932	1,304,658	(1,427,184)	(93,846)	3,529,560
Cash Deposits	94,416	559,331	(441,664)	(2,565)	209,518
Net Purchases & Sales Investment Debtors & Creditors	(476)	1,863,989	(1,868,848)	(4,859)	
				3,830	3,354
<u>Total Investment Assets</u>	3,839,872				3,742,432
Current Assets	(5,080)			(422)	(5,502)
Less Net Revenue of Fund				12,358	
Total Net Assets	3,834,792			(85,504)	3,736,930

The Net Revenue of Fund figures in the above tables include the investment transaction costs as specified below:

Investment Transaction Costs.

	2016/17				2015/16			
	Purchases £'000	Sales £'000	Other £'000	Total £'000	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	1,044	10	-	1,054	1,020	5	-	1,025
Commission	359	340	7	706	328	329	8	665
TOTAL	1,403	350	7	1,760	1,348	334	8	1,690

10, INVESTMENT ASSETS

Further analysis of the market value of investments as set out in the Net Assets Statement is given below:-

	31 March 2017		31 March 2016	
	£'000		£'000	
UK Equities				
Quoted	331,898		313,922	
Pooled Investments	307,071		171,812	
FTSE Futures	(53)	638,916	(44)	485,690
Diversified Growth Funds				
Pooled Investments	375,391	375,391	360,928	360,928
Infrastructure				
Pooled Investments	256,003	256,003	-	-
Overseas Equities				
Quoted	418,155		284,421	
Pooled Investments	1,129,981	1,548,136	1,087,924	1,372,345
UK Index Linked Gilts				
Quoted	509,172	509,172	433,798	433,798
Sterling Bonds (excluding Gilts)				
Pooled Investments	342,728	342,728	358,029	358,029
Hedge Funds				
Pooled Investments	228,228	228,228	192,271	192,271
Property				
Pooled Investments	380,909	380,909	366,914	366,914
Cash Deposits				
Sterling	55,506		66,961	
Foreign Currencies	12,206	67,712	142,557	209,518
Investment Debtors/Creditors				
Investment Income	4,937		3,558	
Sales of Investments	1,166		190	
Foreign Exchange Hedge	5,075		(40,415)	
Purchases of Investments	(598)	10,580	(394)	(37,061)
TOTAL INVESTMENT ASSETS		4,357,775		3,742,432

DERIVATIVES ANALYSIS

Open forward currency contracts

Settlement	Currency bought	Local Value 000's	Currency Sold	Local Value 000's	Asset Value £000's	Liability Value £000's
Up to one month	EUR	48,148	GBP	(55,564)	598	
Up to one month	GBP	55,564	EUR	(47,638)		(88)
Up to one month	GBP	1,790,800	JPY	(12,898)		(40)
Up to one month	GBP	158,785	USD	(127,273)		(463)
Up to one month	JPY	13,634	GBP	(1,790,800)	776	
Up to one month	USD	122,750	GBP	(158,785)		(4,160)
One to six months	EUR	238,938	GBP	(275,028)	3,050	
One to six months	GBP	9,748	EUR	(8,485)		(129)
One to six months	GBP	178,900	JPY	(1,323)		(38)
One to six months	GBP	38,885	USD	(31,166)		(135)
One to six months	JPY	59,119	GBP	(8,158,900)	450	
One to six months	USD	608,944	GBP	(757,670)	4,794	
Six to twelve months	EUR	44,249	GBP	(51,428)	34	
Six to twelve months	JPY	11,493	GBP	(1,596,000)	(6)	
Six to twelve months	USD	114,758	GBP	(143,757)	432	
Total					10,128	(5053)
Net forward currency contracts at 31 March 2017						5,075

Open forward currency contracts at 31 March 2016	(94,338)	53,923
Net forward currency contracts at 31 March 2016		(40,415)

Exchange Traded Derivatives held at 31 March 2017:-

<u>Contract Type</u>	<u>Expiration</u>	<u>Book Cost</u>	<u>Unrealised Gain</u>
		<u>£'000</u>	<u>£'000</u>
FTSE equity futures	June 2017	5,602	-53

Exchange Traded Derivatives held at 31 March 2016:-

FTSE equity futures	June 2016	11,309	-44
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A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

The UK Equity futures contracts are held to facilitate efficient portfolio management for a passively managed investment where the costs of investing directly in UK equities would be significant.

Forward "over the counter" foreign exchange contracts are held to reduce the impact of fluctuations in the exchange rate between sterling and the other currency.

The proportion of the market value of investment assets managed by each external manager and in house Treasury Management at the end of the financial year was:-

	31 March 2017 £'000	%	31 March 2016 £'000	%
Blackrock	1,060,113	24.3	1,024,650	27.4
Standard Life	236,903	5.4	233,981	6.3
Record	10,624	0.2	(29,095)	(0.8)
Jupiter Asset Management	199,834	4.6	173,863	4.6
Genesis Investment Management	196,601	4.5	149,257	4.0
Invesco Perpetual	388,073	8.9	289,696	7.7
State Street Global Advisors	160,461	3.7	119,803	3.2
Partners Group	201,487	4.6	175,511	4.7
Royal London Asset Management	262,242	6.0	291,222	7.8
TT International	236,626	5.4	201,993	5.4
Gottex Asset Management	971	0.0	3,483	0.1
Signet Capital Management	1,162	0.0	1,057	0.0
IFM Investors	256,003	5.9	135,671	3.6
Pyrford International	138,487	3.2	126,947	3.4
Unigestion UK Ltd	223,160	5.1	178,118	4.8
Schroder Investment Management	539,380	12.4	449,901	12.0
JP Morgan	226,096	5.2	187,732	5.0
Bank of New York Mellon	7,497	0.2	17,603	0.5
Treasury Management	12,055	0.3	11,039	0.3
TOTAL INVESTMENT ASSETS	4,357,775	100.0	3,742,432	100.0

11, SINGLE INVESTMENTS OVER 5% OF THE FUND

The following investments represent more than 5% of the net assets of the fund.

Investments	Value at 31 st March 2017 £'000	% of Net Assets	Value at 31 st March 2016 £'000	% of Net Assets
Invesco Perpetual Global ex UK Enhanced Index Fund	388,073	9.02%	289,696	7.76%
RLPPC UK Corporate Bond Fund (Royal London)	262,242	6.10%	291,222	7.80%
IFM Global Infrastructure (UK)	256,003	5.95%	-	-
Standard Life Global Absolute	236,903	5.51%	233,980	6.27%
Unigestion Uni-Global – Equity Emerging Mkt SAC GBP	223,160	5.19%	178,118	4.77%

12, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2017. Debtors and creditors included in the accounts are analysed below:-

	31 March 2017 £'000	31 March 2016 £'000
CURRENT ASSETS		
Contributions Receivable :-		
- Employers	6,784	4,636
- Members	2,877	2,010
Transfer Values Receivable	-	-
Discretionary Early Retirement Costs	526	308
Other Debtors	1,068	725
	<u>11,255</u>	<u>7,679</u>
CURRENT LIABILITIES		
Management Fees	(1,638)	(1,249)
Provision for Performance Fees	(10,567)	(8,422)
Transfer Values Payable	-	-
Lump Sum Retirement Benefits	(1,068)	(1,692)
Other Creditors	(1,979)	(1,818)
	<u>(15,252)</u>	<u>(13,181)</u>
NET CURRENT ASSETS	<u>(3,997)</u>	<u>(5,502)</u>

The provision for Performance Fees includes fees that have been incurred but are subject to phased payment or not due to be paid until the realisation of the related assets. They remain subject to variation as a result of future performance.

At 31 March 2016 Debtors were unusually low due to Bristol City Council having paid their March 2016 contributions (due in April 2016) before 31 March 2016.

Analysis of Debtors and Creditors by public sector bodies:-

	31 March 2017		31 March 2016
	£'000		£'000
CURRENT ASSETS			
Local Authorities	5,034		3,007
NHS Bodies	-		1
Other Public Bodies	2,313		2,117
Non Public Sector	3,908	11,255	2,554
			7,679
CURRENT LIABILITIES			
Local Authorities	(21)		(10)
Other Public Bodies	(1,569)		(1,569)
Non Public Sector	(13,662)	(15,252)	(11,602)
NET CURRENT ASSETS		(3,997)	(5,502)

13, CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2017. (March 2016 = NIL).

14, EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2017 that require any adjustment to these accounts.

15, ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSES OF IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 2017	31 March 2016
Rate of return on investments (discount rate)	2.5% per annum	3.6% per annum
Rate of pay increases*	3.8% per annum	3.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.3% per annum	2.0% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year-end has also changed to allow for short-term public sector pay restraint which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £5,159 million. Interest over the year increased the liabilities by c£186 million, and allowing for net benefits accrued/paid over the period also increased them by c£22 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £1,092 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £6,459 million.

16, TRANSFERS IN

During the year ending 31 March 2017 there were no group transfers in to the fund.

17, AGENCY SERVICES

The Fund makes payments with regard to added year benefits awarded by the Employer to LGPS members, including related pension increases. The Fund also pays a small number of other pension supplements. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account.

	2016/17	2015/16
	£'000	£'000
Benefits Paid and Recharged	6,024	6,193

The Fund also administers £25.7m (£23.4m in 2015/16) pension payments on behalf of the Fire Service and the Teacher's pension schemes. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account. The Fire Service and Teacher's employers also pay for the cost of providing this service.

18, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2016/17 were £55 (2015/16 - £131). Additional Voluntary Contributions received from employees and paid to Friends Life during 2016/17 were £272,810 (2015/16 - £308,237).

The total value of the assets invested, on a money purchase basis, with these AVC providers was:-

	31 March 2017	31 March 2016
	£'000	£'000
<u>Equitable Life</u>		
With Profits Retirement Benefits	369	384
Unit Linked Retirement Benefits	362	171
Building Society Benefits	-	171
	<u>731</u>	<u>726</u>
Death in Service Benefit	<u>53</u>	<u>82</u>
<u>Friends Life</u>		
With Profits Retirement Benefits	84	115
Unit Linked Retirement Benefits	4,094	4,349
Cash Fund	<u>309</u>	<u>385</u>
	<u>4,487</u>	<u>4,849</u>

AVC contributions are not included in the Fund's financial statements as they do not come under the requirements of Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016 regarding regulation 69(1)(a) of the Local Government Pension Scheme Regulations 2013.

19, RELATED PARTIES

Committee Member Related:-

In 2016/17 £37,780 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£34,176 in 2015/16). Five voting members and one non-voting member of the Avon Pension Fund Committee (including two B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2016/2017. *(Four voting members and one non-voting member in 2015/2016, including two B&NES Councillor Members)*

Independent Member Related:-

Two Independent Members were paid allowances of £13,025 and £15,852 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are entitled to claim reasonable expenses which are included in the above allowances. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-

During the year 2016/17 the Fund paid B&NES Council £265,428 for administrative services (£287,848 in 2015/16) and B&NES Council paid the Fund £35,269 for administrative services (£28,266 in 2015/16). Various Employers paid the fund a total of £224,272 for pension related services including pension's payroll and compiling data for submission to the actuary (£222,662 in 2015/16).

Pension Board Related:-

The Pension Board came in to operation in July 2015. In 2016/17 £7,067 was charged to the Fund in respect of Allowances and expenses paid to the Members of the Pension Board (£5,446 for the nine months of 2015/16). Five members of the Pension Board were members of the Local Government Pension Scheme during the financial year 2016/2017. *(Five members in 2015/2016).*

Officer and Manager Related:-

The officers administering the Avon Pension Fund are all eligible to be members of the Avon Pension Fund.

The Fund is governed by Central Government regulation. There are no other related party transactions except as already disclosed elsewhere.

20, KEY MANAGEMENT REMUNERATION

Of Bath & North East Somerset Council's key management personnel, some of the remuneration costs were charged to the fund to reflect the time spent. These were unchanged since 2015/16 and consisted of:

- part of the Head of Business Finance and Pensions salary, fees and allowances £50,167 (2015/16 £50,167) and their employer's pension contributions £9,498 (2015/16 £9,498).
- part of the Divisional Director Business Support's salary, fees and allowances £9,763 (2015/16 £9,763) and their employer's pension contributions £1,835 (2015/16 £1,835).

21, OUTSTANDING COMMITMENTS

As at the 31 March 2017 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £145,674,329 (31 March 2016 £149,355,935).

At 31st March 2017 there was no outstanding commitment relating to investments in a pooled fund of underlying infrastructure assets (31 March 2016 \$US105,000,000).

22, FINANCIAL INSTRUMENTS

The net assets of the Fund are made up of the following categories of Financial Instruments:

2016/17	Fair value through profit and loss	Loans & receivables	Financial liabilities at amortised cost
	£'000s	£'000s	£'000s
<u>Financial assets</u>			
Index Linked securities	509,172		
Equities	750,053		
Pooled investments (non-property)	2,639,402		
Pooled Property investments	380,909		
Derivative contracts	5,075		
Cash		67,712	
Other investment balances	6,103		
Debtors		11,255	
<u>Financial liabilities</u>			
Derivative contracts	- 53		
Other investment balances	-598		
Creditors			-15,252
	4,290,063	78,967	-15,252

2015/16	Fair value through profit and loss	Loans & receivables	Financial liabilities at amortised cost
	£'000s	£'000s	£'000s
<u>Financial assets</u>			
Index Linked securities	433,799		
Equities	598,344		
Pooled investments (non-property)	2,170,963		
Pooled Property investments	366,914		
Cash		209,518	
Other investment balances	3,748		
Debtors		7,679	
<u>Financial liabilities</u>			
Derivative contracts	- 40,460		
Other investment balances	-394		
Creditors			-13,181
	3,532,914	217,197	-13,181

23, FINANCIAL RISK MANAGEMENT DISCLOSURE

The primary objective of the Avon Pension Fund is to generate positive real investment return above the rate of inflation for a given level of risk to meet the liabilities as they fall due over time. The aim of the investment strategy and management structure is to minimise the risk of a reduction in the value of the assets and maximise the opportunity for asset gains across the portfolio of assets.

The Fund achieves this objective by investing across a diverse range of assets such as equities, bonds, property and other alternative investments in order to reduce exposure to a variety of financial risks including market risk (price, interest rate and currency risk), credit risk and liquidity risk.

The Fund's investments are managed by external Investment Managers who are required to invest in accordance with the terms of the agreed investment guidelines that set out the relevant benchmark, performance target, asset allocation ranges and any restrictions. The Avon Pension Fund Committee has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager and its Investment Consultant advises on the nature of the investments made and associated risks.

The Fund's investments are held by BNY Mellon Asset Servicing, who acts as custodian on behalf of the Fund.

Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio. The risk management process identifies and mitigates the risks arising from the Fund's investment strategy and policies which are reviewed regularly to reflect changes in market conditions.

(a) Market Risk

Market risk is the risk of loss from fluctuations in market prices, interest rates, credit spreads and currencies. The Fund is exposed through its investments portfolio to all these market risks. The level of risk exposure depends on market conditions, expectations of future price and yield movements and asset allocation. The objective of the investment strategy is to identify, manage and control market risk within acceptable parameters, while optimising the return.

Volatility in market risk is primarily managed through diversification across asset class and investment managers.

Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate caused by factors other than interest rates or currencies. These changes can be caused by factors specific to the individual instrument, its issuer or factors affecting the market in general and will affect the assets held by the Fund in different ways.

All investments present a risk of loss of capital. By diversifying its investments across asset classes, geography and industry sectors, investment mandate guidelines and Investment Managers the Fund aims to reduce its exposure to price risk. Diversification seeks to reduce the correlation of price movements. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

The Fund has a high allocation to equities and therefore the fluctuation in equity prices is the largest market risk within the portfolio. The maturity profile of the Fund and strong

underlying covenant underpins the allocation to equities which are expected to deliver higher returns over the long term.

Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets held within the Fund (provided by the Fund's advisors). The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the three years to 31 March 2017. These movements in market prices are considered reasonable for the 2016/17 reporting period. This analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits by the amounts shown below. However, the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund.

The analysis for the year ending 31 March 2017 is shown below:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	626,154	9.0%	682,508	569,800
Overseas Equities	1,560,898	10.0%	1,716,988	1,404,808
UK Bonds	342,728	6.4%	364,662	320,793
Index Linked Gilts	509,172	12.6%	573,327	445,015
Pooled Multi Asset	375,391	6.1%	398,289	352,492
Property	380,909	2.6%	390,813	371,006
Fund of Hedge Funds	228,228	3.8%	236,901	219,556
Infrastructure	256,003	12.0%	286,723	225,282
Cash & Equivalents	78,292	0.0%	78,292	78,292
Total Assets	4,357,775	8.5%	4,728,503	3,987,044

The analysis for the year ending 31 March 2016 is shown below (restated to be consistent with 2016/17):

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	485,690	10.3%	535,716	435,664
Overseas Equities	1,372,347	9.8%	1,506,972	1,237,718
UK Bonds	358,029	7.2%	383,807	332,251
Index Linked Gilts	433,798	9.3%	474,142	393,455
Pooled Multi Asset	360,928	4.2%	376,087	345,769
Property	366,914	1.6%	372,785	361,043
Fund of Hedge Funds	192,271	3.4%	198,808	185,734
Infrastructure	0		0	0
Cash & Equivalents	172,455	0.0%	172,455	172,455
Total Assets	3,742,432	7.4%	4,020,772	3,464,089

Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities.

The Fund's exposure to interest rate movements on these investments is provided below. Cash includes the cash deposits held against futures contracts.

	31 March 2017 £'000	31 March 2016 £'000
Cash and Cash Equivalents	78,291	172,455
Fixed Interest Assets	851,899	791,827
Total	930,190	964,282

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2017 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

An increase or decrease of 100 basis points (bps) in interest rates would have increased or decreased the net assets by the amount shown below.

As at 31 March 2017	Value £'000	Change in net assets	
		+100 bps	-100 bps
Cash and Cash Equivalents	78,291	-	-
Fixed Interest	851,899	(132,619)	132,619
Total	930,190	(132,619)	132,619

A 1% rise in interest rates will reduce the fair value of the relevant net assets and vice versa. Changes in interest rates do not impact the value of cash balances but they will affect the interest income received on those balances.

The same analysis for the year ending 31 March 2016 is shown below (restated for consistency with 2016.17):

As at 31 March 2016	Value £'000	Change in net assets	
		+100 bps	-100 bps
Cash and Cash Equivalents	172,455	-	-
Fixed Interest	791,827	(114,472)	114,472
Total	964,282	(114,472)	114,472

Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. A significant proportion of the Fund's equity portfolio is invested in overseas stocks, overseas property, infrastructure and hedge funds (where the shares are denominated in US dollars). When sterling depreciates the sterling value of foreign currency denominated investments will rise and when sterling appreciates the sterling value for foreign denominated investments will fall. The Fund has a passive hedging arrangement in place which reduces the volatility of returns over the longer term (the hedging programme hedges the exposure to the US Dollar, Yen and Euro).

Where an investment manager chooses to hedge against foreign currency movements within their portfolio forward foreign exchange contracts are used.

The following tables summarise the Fund's currency exposures within the portfolio. For the global property funds the share class of the pooled funds held has been used.

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2017 £'000	Asset value as at 31 March 2016 £'000
Overseas Equities	1,560,898	1,372,345
Overseas Property	192,923	171,811
Fund of Hedge Funds	228,228	192,271
Infrastructure	256,003	0

Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency rates has been analysed using the volatility which is broadly consistent with a one-standard deviation movement in the main currencies over the 3 years to 31 March 2017 and these movements in currencies are considered reasonable for the 2016/17 reporting period. The analysis reflects the Fund's passive hedging policy of a 50% hedge ratio on the overseas equity assets and a 100% hedge ratio on the overseas property, infrastructure and hedge fund assets. Therefore there is no currency exposure on the assets that are 100% hedged.

A strengthening / weakening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2017 would have increased / decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,560,898	7.0%	1,670,161	1,451,635

The same analysis for the year ending 31 March 2016 is shown below:

Currency Risk by Asset Type:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,372,345	5.3%	1,445,080	1,299,611

(b) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument or transaction will fail to meet an obligation and cause the Fund to incur a financial loss. In addition, the market values of investments will reflect an assessment of creditworthiness in their pricing and

therefore the risk of loss is implicitly provided for in the carrying value of the assets and liabilities.

The entire Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur through the failure to settle transactions in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. Credit risk on exchange-traded derivative contracts is minimised by the various insurance policies held by exchanges to cover defaulting counterparties. Over-the-counter (OTC) derivative contracts are bilateral agreements where the Fund faces the credit risk of the financial counterparty directly. This is the case for forward currency contracts where a line of credit is extended to the Fund in place of a collateral posting agreement (as is the case for exchange-traded contracts). The hierarchy and replacement of an OTC contract on default of one of the counterparties is detailed in the ISDA, which is a market standard legal document governing derivative contracts.

Forward currency contracts are entered into by the Fund's managers, especially the currency hedging manager, Record. These contracts are subject to credit risk in relation to the counterparties of the contracts. The responsibility for managing these contracts and counterparty risk rests with the managers. Counterparty management is evaluated as part of the due diligence process prior to appointing a manager.

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the Fund's behalf by the Council's Treasury Management Team in line with the Fund's Treasury Management Policy which sets out the permitted counterparties and limits. Cash held by the Fund and managers is invested with the custodian in diversified money market funds rated AAA.

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2017 was £19.5m. This was held with the following institutions:

	31 March 2017		31 March 2016	
	Rating	£'000	Rating	£'000
Custodian's Liquidity Funds				
Bank of New York Mellon	AAA	7,495	AAA	17,591
Bank Call Accounts				
Handelsbanken	AA	5,200	AA-	5,090
Bank of Scotland Corporate Deposit Account	A+	3,210	A+	500
Goldman Sachs Global Treasury Fund	AAA	2,720	AAA	4,710
NatWest Special Interest Bearing Account	BBB+	910	BBB+	710
Bank Current Accounts				
NatWest	BBB+	10	BBB+	8

A securities lending programme is managed by the Fund's custodian BNY Mellon who manage and monitor the counterparty risk, collateral risk and the overall lending programme. Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon the type of transaction. This level is assessed daily to ensure it takes account of market movements. The current collateral the Avon Pension Fund accepts is AAA rated supranational debt, AA rated sovereign debt and FTSE Equity DBV. Cash collateral is not permitted. Securities lending is capped by investment regulations and statutory limits ensure no more than 25% of eligible assets can be on loan at any time.

(c) Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's investment strategy and cash management policy ensure that the pension fund has adequate cash to meet its working requirements including pension payments. Cash flow forecasts are prepared to manage the timing of and changes to the Fund's cash flows. The Fund has access to an overdraft facility for short term cash needs which was not drawn on during the year.

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2017 the value of the illiquid assets was £1,102m, that represented 25.3% of the total Fund assets (31 March 2016: £793.2m which represented 21% of the total Fund assets).

24, FAIR VALUE HIERARCHY

Fair value is the value at which the investments could be realised within a reasonable timeframe. The Fund measures fair values using the following fair value hierarchy that reflects the subjectivity of the inputs used in making an assessment of fair value. This hierarchy is not a measure of investment risk but a reflection of the ability to value the investments at fair value. The hierarchy has the following levels:

- Level 1 – Asset and liabilities where the fair value is derived from unadjusted quoted prices in active markets for identical assets or liabilities. These include quoted/ listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.
- Level 2 – Assets and liabilities where quoted market prices are not available but uses inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. For example where an instrument is traded in a market that is not considered to be active, or where valuation techniques based significantly on observable market data are used to determine fair value. Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities including the Diversified Growth Funds that only holds quoted securities. The Fund's holding in these pooled funds can be realised at net asset value.
- Level 3 – assets and liabilities where at least one unobservable input used to measure fair value could have a significant effect on the valuation. Level 3 includes pooled funds such as the property and infrastructure funds, other Diversified Growth Funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities measured at fair value according to the fair value hierarchy at 31 March 2017.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	750,053	1,437,053		2,187,106
Bonds - Quoted	509,172	342,728		851,900
Fund of Hedge Funds			228,228	228,228
Diversified Growth Funds		138,487	236,903	375,390
Property			380,909	380,909
Infrastructure			256,003	256,003
Cash	67,712			67,712
Derivatives: Forward FX	5,075			5,075
Derivatives: Futures	-53			-53
Investment Debtors /Creditors	5,505			5,505
	<u>1,337,464</u>	<u>1,918,268</u>	<u>1,102,043</u>	<u>4,357,775</u>

The fair value hierarchy as at 31 March 2016 was:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	598,344	1,259,735		1,858,079
Bonds - Quoted	433,798	358,029		791,827
Fund of Hedge Funds			192,271	192,271
Diversified Growth Funds		126,947	233,981	360,928
Property			366,914	366,914
Cash	209,518			209,518
Derivatives: Forward FX	-40,415			-40,415
Derivatives: Futures	-44			-44
Investment Debtors /Creditors	3,354			3,354
	<u>1,204,555</u>	<u>1,744,711</u>	<u>793,166</u>	<u>3,742,432</u>

There has been no re-classification of assets between levels of the hierarchy between 31 March 2016 and 31 March 2017. Level 1 assets were sold to fund the investment in Infrastructure (Level 3).

Reconciliation of Fair Value measurements within Level 3

Level 3	Market Value 01 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains / losses	Realised gains / losses	Market value 31 March 2017
	£000	£000	£000	£000	£000	£000
Fund of Hedge Funds	192,272	6,996	-10,651	39,039	572	228,228
Diversified Growth Funds	233,980	0	0	2,923	0	236,903
Property	366,914	39,243	-51,767	17,643	8,876	380,909
Infrastructure		359,365	-137,435	34,073	0	256,003
	793,166	405,604	-199,853	93,678	9,448	1,102,043

Sensitivity of assets valued at Level 3

Having consulted its investment advisor, and having analysed historical data and market trends, the Fund has determined that the valuation methods used for Level 3 assets are likely to be accurate to within the following ranges on the closing value of the investments held at 31 March 2017:

Level 3 assets	Assessed valuation range +/-	Value at 31 March 2017	Value on increase	Value on decrease
		£000	£000	£000
Property	10%	380,909	419,000	342,818
Fund of Hedge funds	10%	228,228	251,051	205,405
Infrastructure	15%	256,003	294,403	217,603
Diversified Growth Fund	10%	236,903	260,593	213,213
Total		1,102,044	1,225,047	979,039

The same analysis for 31 March 2016:

Level 3 assets	Assessed valuation range +/-	Value at 31 March 2016	Value on increase	Value on decrease
		£000	£000	£000
Property	10%	366,914	403,605	330,223
Fund of Hedge funds	10%	192,271	211,498	173,044
Infrastructure	15%	0	0	0
Diversified Growth Fund	10%	233,981	257,379	210,583
Total		793,166	872,482	713,850

25, EMPLOYING BODIES

As at 31 March 2017 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Principal Councils and Service Providers

Avon Fire & Rescue Service
Bath & North East Somerset Council
Bristol City Council

North Somerset Council
South Gloucestershire Council

Further & Higher Education Establishments

Bath Spa University
Bath College
City of Bristol College
South Gloucestershire & Stroud College

St. Brendan's Sixth Form College
University of the West of England
Weston College

Education Establishments

Abbeywood Community School Academy
Academy of Trinity C of E
Aspire Academy
Backwell School Academy
Bannerman Road Community Academy
Barton Hill Academy
Bath Community Academy
Bedminster Down School
Beechen Cliff School Academy
Begbrook Primary School Academy
Birdwell Primary School
Bradley Stoke Community School
Bridge Learning Campus
Bristol Cathedral School Trust
Bristol Free School
Bristol Futures Academy
Bristol Technology & Engineering Academy
Broadlands School
Broadoak Mathematics & Computing College
Cabot Learning Federation
Callicroft Primary School
The Castle School
Charborough Road Primary School
Charfield Primary School
Chew Stoke Church School
Christ Church C of E Primary School
City Academy
Churchill Academy
Clevedon School Academy
Clutton Primary School
Colston's Girls' School
Colston's Primary School
Combe Down C of E Primary School
Cotham School Academy
Court de Wyck Church School
Crockerne C of E Primary School
Digitech Studio School
Diocese of Bristol Academy Trust
Downend School Academy
Dundry C of E Academy
Easton C of E Academy

Elmlea Junior School Academy
Fairfield High School
Fairlawn School
Filton Avenue Primary School
Filton Hill Primary School
Fishponds Church of England Academy
Four Acres Primary Academy
Fosse Way School
Frome Vale Academy
Gordano School Academy
Greenfields Primary School Academy
Hanham Woods Academy
Hans Price Academy
Hareclive Academy
Hayesfield Girls School Academy
Haywood Village Academy
Henbury Court Primary Academy
Henbury School
Henleaze Junior School Academy
Heron's Moor Academy
High Down Infant School
High Down Junior School
High Littleton C of E Primary School
Hotwells Primary School
IKB Academy
Ilminster Avenue Academy
Inspirational Futures Trust
Kingshill Church School
Kings Oak Academy
Little Mead Primary Academy
Longvernal Primary School
Lyde Green Primary School
Mangotsfield School
Marlwood School
Meadowbrook Primary School
Merchant's Academy
Midsomer Norton Schools Partnership
Minerva Primary Academy
Moorlands Infant School
Moorlands Junior School
Nailsea School

North Somerset Enterprise & Technology College
 Oasis Academy Bank Leaze
 Oasis Academy Brightstowe
 Oasis Academy Connaught
 Oasis Academy John Williams
 Oasis Academy Longcross
 Oasis Academy New Oak
 Oasis Academy Brislington
 Oasis Academy Marksbury Road
 Oldfield School
 Oldfield Park Infant School
 Oldfield Park Junior School
 Orchard Academy
 Parson Street Primary School
 Patchway Community College
 Peasedown St John Primary School
 Portishead Primary School
 Priory Community School
 Ralph Allen School
 Redland Green School
 Redfield Educate Together Primary Academy
 Saltford C of E Primary School
 Severn Beach Primary Academy
 Sir Bernard Lovell School
 Steiner Academy Bristol
 St Bede's Catholic College
 St Georges Church School
 St John's CEVC Primary Academy (Keynsham)
 St John the Evangelist Church School
 St John's C of E Primary School (Midsomer Norton)
 St Katherine's School
 St Mark's Primary School
 St Martin's Garden Primary School
 St Mary's CEVA Primary School

Designating Bodies

Almondsbury Parish Council
 Backwell Parish Council
 Bath Tourism Plus
 Bristol Waste Company
 Bradley Stoke Town Council
 Charter Trustees of the City of Bath
 Congresbury Parish Council
 Clevedon Town Council
 Destination Bristol
 Dodington Parish Council
 Downend and Bromley Heath Parish Council
 Emersons Green Town Council
 Filton Town Council
 Frampton Cotterell Parish Council
 Hanham Abbots Parish Council
 Hanham Parish Council
 Keynsham Town Council
 Midsomer Norton Town Council
 Nailsea Town Council
 Oldland Parish Council
 Patchway Town Council

St Nicholas of Tolentine RC Primary School
 St Patrick's Catholic Primary School
 St Peter's C of E Primary School
 St Philip's C of E Primary School
 St Teresa's Catholic Primary School
 St Ursula's Academy
 Stoke Bishop C of E Primary School
 Stoke Lodge Primary School
 Summerhill Academy
 The Bath Studio School
 The Dolphin School
 The Kingfisher School
 Winterbourne International Academy
 Yate International Academy
 Three Ways School
 Tickenham C of E Primary School
 Trinity Church School
 Trust in Learning
 Venturers' Academy
 Wallscourt Farm Academy
 Waycroft Academy
 Welton Primary School
 Wellsway School
 West Town Lane Academy
 Westbury Park Primary School
 Westbury-on-Trym C of E Academy
 Weston All Saints C of E Primary School
 Wicklea Academy
 Widcombe C of E Infant School
 Widcombe C of E Junior School
 Woodlands Academy
 Worle Community School
 Writhlington Academy
 Yeo Moor Primary School

Paulton Parish Council
 Peasedown St John Parish Council
 Pill & Easton in Gordano Parish Council
 Portishead Town Council
 Radstock Town Council
 Saltford Parish Council
 Stoke Gifford Parish Council
 Thornbury Town Council
 Westerleigh Parish Council
 Westfield Parish Council
 Weston-super-Mare Town Council
 Whitchurch Parish Council
 Winterbourne Parish Council
 Yate Town Council
 Yatton Parish Council

Community Admission Bodies

Alliance Homes
Ashley House Hostel
Disability Equality Forum
Bristol Music Trust
Clifton Suspension Bridge Trust
The Holburne Museum
Learning Partnership West Ltd
Merlin Housing Society Ltd (South Glos. Council)
Merlin Housing Society Ltd (New Staff)
Sirona Care & Health CIC
Sirona Care & Health CIC (New Staff)
Southwest Grid for Learning Trust
The Care Quality Commission
The Park Community Trust Ltd
University of Bath
Vision North Somerset CIO
West of England Sport Trust (Wesport)
Writhlington Trust

Transferee Admitted Bodies

Action For Children
Active Community Engagement Ltd
Agilisys Limited
Agilysis Limited 2015
Alliance Living Care Limited
Aspens Services Limited - Abbeywood Community School
Aspens Services Limited - Bannerman Road Community Academy
Aspens Services Limited - Beacons Rise Primary School
Aspens Services Limited - Begbrook Primary Academy
Aspens Services Limited - Blackhorse Primary School
Aspens Services Limited - Bradley Stoke Community School
Aspens Services Limited - Castle School
Aspens Services Limited - Charborough Primary School
Aspens Services Limited - Charfield School
Aspens Services Limited - Downend School
Aspens Services Limited - Frampton Cottrell School
Aspens Services Limited - Frome Vale Academy
Aspens Services Limited - Hanham Woods Academy
Aspens Services Limited - Kings' Forest Primary School
Aspens Services Limited - King's Oak Academy
Aspens Services Limited - Longwell Green Primary School
Aspens Services Limited - Mangotsfield School
Aspens Services Limited - Marlwood School
Aspens Services Limited - Meadowbrook Primary School
Aspens Services Limited - Minerva Academy
Aspens Services Limited - Patchway Community College
Aspens Services Limited - Shirehampton Primary School
Aspens Services Limited - Summerhill Academy
Aspens Services Limited - Warmley Park Primary School
BAM Construction UK Ltd
Bespoke Cleaning Services Ltd - Filton Hill Primary School
Bespoke Cleaning Services Ltd - Stoke Lodge Primary School
Brunelcare CIC
Caterlink Ltd
Churchill Contract Services Ltd - Bristol City Council
Churchill Contract Services Ltd - Golden Valley Primary School
Churchill Contract Services Ltd - Milton Park Primary School

Churchill Contract Services Ltd - South Gloucestershire & Stroud College
 Churchill Contract Services - Westhaven School
 Circadian Trust
 Circadian Trust No 2
 Compass Contract Services (UK) Ltd - Ashton Park School
 Compass Contract Services (UK) Ltd - Bristol Cathedral Choir School
 Compass Contract Services (UK) Ltd - St Bernard's Catholic Primary School
 Compass Contract Services (UK) Ltd - Compass Point South Street School
 Compass Contract Services (UK) Ltd - Luckwell Primary School
 Compass Contract Services (UK) Ltd - Nova Primary School
 Compass Contract Services (UK) Ltd - Sea Mills Primary School
 Creative Youth Network (East) - Hillfields Youth Centre
 Dolce Ltd - Filton Hill Primary School
 Dolce Ltd - Mangotsfield School
 Edwards and Ward Ltd
 Fit For Sport - Trinity Anglican Methodist Primary School
 Fit For Sport - St Peter's C of E Primary School
 Glen Cleaning Company
 Greenwich Leisure Ltd - Bath & North East Somerset Council
 Greenwich Leisure Ltd - North Somerset Council
 HCT Group (CT Plus CIC)
 Interserve Catering Services Ltd - Bristol City Council
 Interserve Catering Services Ltd - Henleaze Junior School
 Interserve Catering Services Ltd - Little Mead Academy
 Interserve Catering Services Ltd - St Patrick's School
 ISS Mediclean Ltd - Bristol City Council
 ISS Mediclean Ltd - Cabot Learning Federation
 KGB Cleaning (South West) Ltd - Backwell Academy
 Learning Partnership West (Lot 1) - Brentry Youth Centre
 Learning Partnership West (Lot 2) - Lockleaze Youth & Play Space
 Learning Partnership West (Lot 3) - The Mill
 Learning Partnership West (Lot 7) - Hareclive Youth Centre
 Liberata UK Ltd
 Prestige Cleaning & Maintenance Limited
 Relyon Cleaning Services
 Ridge Crest Cleaning Ltd - Sir Bernard Lovell School
 Ridge Crest Cleaning Ltd – Bristol City Council
 Shaw Healthcare - Petersfield
 Shaw Healthcare - The Granary
 SITA Holdings UK Ltd
 Skanska Rashleigh Weatherfoil Ltd
 SLM Community Leisure Trust
 SLM Fitness & Health Ltd
 Sodexo Ltd
 The Brandon Trust

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	23 JUNE 2017	AGENDA ITEM NUMBER
TITLE:	INVESTMENT PANEL ACTIVITY	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Minutes from Investment Panel meeting held 24 May 2017 EXEMPT Appendix 2 – Summaries of Investment Panel meetings with Managers [TO FOLLOW]		

1 THE ISSUE

- 1.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. This report informs Committee of decisions made by the Panel and any recommendations.
- 1.2 The Panel has held one formal meeting since the March 2017 committee meeting, on 24 May 2017 2016. The draft minutes of this meeting provides a record of the Panel's debate before reaching any decisions or recommendations and can be found in Appendix 1.
- 1.3 The Panel also held a Meet the Managers Workshop on 24 May 2017, a summary of the meetings is at Exempt Appendix 2.
- 1.4 There were no decisions or recommendations arising from this meeting.

2 RECOMMENDATION

That the Committee:

- 2.1 **Notes the minutes of the Investment Panel meeting on 24 May at Appendix 1 and the summary of the Meet the Managers Workshop at Exempt Appendix 2.**

3 FINANCIAL IMPLICATIONS

- 3.1 In general the financial impact of decisions made by the Panel will have been provided for in the budget or separately approved by the Committee when authorising the Panel to make the decision.
- 3.2 There are transactional costs involved in appointing and terminating managers. Where these arise from a strategic review allowance will be made in the budget. Unplanned changes in the investment manager structure may give rise to transition costs which will not be allowed for in the budget.

4 RECOMMENDATIONS AND DECISIONS

- 4.1 There were no recommendations or decisions for notification to the Committee from the Investment Panel meeting on 24 May 2016.

5 INVESTMENT PANEL DELEGATION

- 5.1 The activity was undertaken under in line with the delegation set out in the Fund's Terms of Reference approved in May 2015:

The Investment Panel will:

- 1. *Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.*
- 2. *Review the Statement of Investment Principles and submit to Committee for approval.*
- 3. *Report regularly to Committee on the performance of investments and matters of strategic importance*

and have delegated authority to:

- 4. *Approve and monitor tactical positions within strategic allocation ranges.*
- 5. *Approve investments in emerging opportunities within strategic allocations.*
- 6. *Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.*
- 7. *Approve amendments to investment mandates within existing return and risk parameters.*
- 8. *Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.*
- 9. *Delegate specific decisions to Officers as appropriate.*

6 RISK MANAGEMENT

- 6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. An Investment Panel has been established to consider in greater detail investment performance and related matters, and to carry out responsibilities delegated by the Committee.
- 6.2 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability

Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary as the report is primarily for information only.

8 CONSULTATION

8.1 This report is primarily for information and therefore consultation is not necessary.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 24th May, 2017, 2.00 pm

Members: Councillor Christopher Pearce (Chair), Councillor David Veale and Councillor Mary Blatchford

Advisors: Tony Earnshaw (Independent Advisor), Steve Turner (Mercer) and Ross Palmer (Mercer)

Also in attendance: Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Nathan Rollinson (Assistant Investments Manager) and Helen Price (Investments Officer)

1 EMERGENCY EVACUATION PROCEDURE

The Senior Democratic Services Officer drew attention to the evacuation procedure as set out in the Agenda.

2 DECLARATIONS OF INTEREST

There were none.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Cherry Beath, Shirley Marsh and Tony Bartlett had sent their apologies for this meeting.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

5 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

The Chair invited the Avon Pension Fund Committee (Investment Panel) to join him in sending condolences to families and friends of the victims of the Manchester bomb attack.

7 MINUTES 22ND FEBRUARY 2017

RESOLVED that public and exempt sets of minutes of the meeting held on Wednesday 22nd February 2017 be confirmed as correct records and signed by the Chair.

8 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 MARCH

2017

The Assistant Investments Manager introduced this item and summarised the key facts as set out in sections 4 and 5 of the report.

Steve Turner (Mercer) introduced the investment performance report including the performance of individual investment managers. Members of the Panel discussed the report, and performance of all investment managers with Steve Turner and officers.

The Panel asked about the future of the Avon Pension Fund's investment managers once the Fund's assets are pooled into Project Brunel. The Investment Manager responded that Project Brunel would use their selection criteria and potentially deliver savings based upon the collective buying power the collaboration initiative would produce. Local accountability would be maintained as each individual fund would remain responsible for strategic decisions including asset allocation. The pooling of assets would only affect the implementation of the investment strategy.

It was **RESOLVED** to note the information as set out in the report.

9 WORKPLAN

The Investment Manager presented the report and highlighted that future Panel activity will focus on the outcomes of the Strategic Investment Review.

RESOLVED to note the workplan.

The meeting ended at 2.50 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 905/17

Meeting / Decision: Avon Pension Fund Committee

Date: 23rd June 2017

Author: Matt Betts

Report Title: Investment Panel Activity

Exempt Appendix Title:

Appendix 2 – Summaries of Investment Panel meetings with Managers

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption:

3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Report be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendix contains information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	23 JUNE 2017
TITLE:	INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 31 March 2017)
WARD:	ALL
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Appendix 1 – Fund Valuation</p> <p>Appendix 2 – Mercer Annual Investment Review</p> <p>EXEMPT Appendix 3 – Changes in RAG status of Investment Managers</p> <p>Appendix 4 – LAPFF Quarterly Engagement Monitoring Report</p>	

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level. This report contains performance statistics for periods ending 31 March 2017.

1.2 The main body of the report comprises the following sections:

Section 4. Funding Level Update

Section 5. Investment Performance: A - Fund, B - Investment Managers

Section 6. Investment Strategy

Section 7. Portfolio Rebalancing and Cash Management

Section 8. Responsible Investment (RI) Update

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

2.1 Note the information set out in the report

2.2 Note LAPFF Quarterly Engagement Report at Appendix 4

3 FINANCIAL IMPLICATIONS

- 3.1 The returns achieved by the Fund from 1 April 2016 will affect the next triennial valuation in 2019. Section 4 of this report discusses the trends in the Fund's liabilities and the funding level.

4 FUNDING LEVEL

- 4.1 Using information provided by the Actuary, Mercer has analysed the funding position as part of the report at Appendix 2 (section 2). This analysis shows the impact of both the assets and liabilities on the (estimated) funding level. ***It should be noted that this is just a snapshot of the funding level at a particular point in time.***

- 4.2 Key points from the analysis are:

- (1) The funding level has risen c.10% over the year from 86% to 96%.
- (2) The improvement over the year was driven by a positive return on assets (particularly strong absolute returns from equities) outweighing an increase in the present value of the liabilities.

5 ANNUAL INVESTMENT REVIEW

- 5.1 This quarter Mercer has provided an annual investment review of the year to 31 March 2017 (see Appendix 2) rather than the normal quarterly performance report. It was agreed as part of the strategic investment review in 2013 to provide an annual report to the Committee following the delegation of some investment decisions to the Investment Panel.
- 5.2 The purpose of this report is to inform the Committee as to how the strategy has performed over the last year, whether the underlying assumptions of the investment strategy remain valid, and whether the investment manager structure is delivering against expectations. These factors will be considered in greater detail as part of the 2017 strategic investment review.

6 INVESTMENT PERFORMANCE

A – Fund Performance

- 6.1 The Fund's assets increased by £618m (16.5%) over the year ending 31 March 2017 giving a value for the investment Fund of £4,356m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers. Manager performance is monitored in detail by the Investment Panel. The Fund's investment return and performance relative to benchmark is summarised below.

Table 1: Fund Investment Returns

Periods to 31 March 2017

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	4.0%	17.2%	9.1%
Avon Pension Fund (excl. currency hedging)	3.8%	20.2%	10.8%
Strategic benchmark (no currency hedging) <i>(Fund incl. hedging, relative to benchmark)</i>	3.7% (+0.3%)	20.1% (-2.9%)	11.3% (-2.2%)

6.2 Fund Investment Return: Over the year both developed market and emerging market equities delivered strong absolute returns. Upward momentum in developed market equities initially continued into Q1 2017 but started to correct as the market questioned President Trump's ability to implement healthcare, taxation and regulatory reforms. Equity market valuations appear to remain stretched and the prospect of unified interest rate increases from developed economies could lead to a more material downward move in the medium-term. Despite waning risk appetite among investors the FTSE 100 posted all-time highs in March and UK business activity growth hit a three-month high in the same month. The US Federal Reserve sought to head off rising inflation with the second interest rate rise in three months, taking the base rate from 0.75% to 1%. A tightening in US monetary policy tends to increase the cost of borrowing for many emerging market economies but this did not seem to impair returns this quarter as emerging markets performed well on a perceived mellowing of Trump's protectionist rhetoric and a number of upside surprises in China's economic data. There is increasing speculation that the ECB may follow the Fed by reducing their quantitative easing program and tightening monetary policy by implementing rate hikes in 2017. Benchmark 10-year bond yields rose marginally in most European countries in the quarter as a result of increasing inflation. Conversely, UK 10-year yields fell by c0.20%, consistent with the scaling-back in equity market performance toward the end of the quarter. In the currency markets, the USD broadly weakened. While sterling posted gains against the US dollar, it depreciated against the Yen and Euro.

6.3 Fund Performance versus Benchmark: -2.9% over the year, attributed to

- (1) **Asset Allocation:** The contribution to outperformance from asset allocation was **-0.2%** over the year. The currency hedging programme detracted **-3.0%** over the year. The Fund marginally outperformed the unhedged strategic benchmark return (which excludes currency hedging) over the year. Passive equities and infrastructure were the main contributors to this performance whilst DGFs and the UK SRI mandate were the main detractors.
- (2) **Manager Performance:** In aggregate, the contribution of manager performance was **+0.3%** over the year, relative to the strategic benchmark. The fact active managers were not able to capture the market preference for 'value' stocks – where many hold portfolios tilted toward 'quality' stocks – led to minimal contribution to returns.

6.4 Currency Hedging: The hedging programme is in place to manage the volatility arising from overseas currency exposure, in particular to protect the Fund as sterling strengthens and returns from foreign denominated assets reduce in sterling terms. The hedging programme contributed +0.2% to the total Fund return over the quarter and detracted -3.0% over the year.

B – Investment Manager Performance

- 6.5 Under the Red Amber Green (RAG) framework for monitoring manager performance, the Panel consider updates on all managers not currently achieving Green status including progress on action points. Any change in the RAG status of any manager is reported to Committee with an explanation of the change. **This quarter one manager has been downgraded from Green to Amber** (explained in Exempt Appendix 3). Therefore, currently 6 managers are Amber rated, Schroder (global equity), Jupiter, TT, Pyrford, Unigestion and Genesis.
- 6.6 All mandates delivered positive absolute returns over the year to 31 March 2017. On a rolling 3 year basis SSgA (Europe and Pacific) was the only manager to outperform its target. Invesco, RLAM and Schroder Property were marginally below their performance targets but within the tolerance range for a Green RAG rating.

7 INVESTMENT STRATEGY

- 7.1 **Asset Class Returns:** Returns from developed equities, corporate bonds, index-linked gilts outperformed the strategic assumptions over three years; the latter two were significantly ahead of the assumed return. Emerging market equities benefitted from increased risk appetite from investors and improving fundamental economic data. Emerging market equities are ahead of their assumed return by c.4%. Infrastructure is well ahead of expected returns. Hedge Funds lag their assumed return due to exceptionally low cash rates.
- 7.2 **MIFID II:** The FCA will release details of the opt-up criteria LGPS will need to satisfy in order to be re-classified as a 'professional counterparty' from the default position of 'retail counterparty'. Once the FCA has made its position clear the Fund will work towards satisfying the revised tests to meet an 'elective professional status'. The deadline for implementation of MIFID II is 3 January 2018.
- 7.3 **Currency Hedging Policy:** Since the result of the EU referendum, Sterling has fallen significantly against other major currencies (increasing the local market value of non-sterling assets). This trend reversed slightly in Q1 versus the dollar with the pound appreciating against the dollar by c1.2% although sterling continued to weaken against the euro and yen over the quarter. Given the majority of hedging activity is versus the dollar, the currency hedge on the non-sterling assets has added value to local currency returns on infrastructure, hedge funds, and to a lesser extent, overseas equities and property. The Consultant and Officers reaffirmed their position on currency hedging at September 2016 Panel and will further review the hedging policy at the strategic review in July 2017.

8 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

- 8.1 As at 24 May 2017 the Fund was within all strategic asset allocation ranges. Officers, having taken advice from Mercer, sold \$105m North American equities from the passive portfolio in January to fund the final commitment to the infrastructure mandate (IFM) in February.
- 8.2 After quarter end the Fund received c£84m in up front deficit payments from employers. On advice from Mercer this has been placed in cash liquidity funds in

the short-term, pending the outcome of the ongoing investment strategy review. This relatively high cash balance will be reviewed on a monthly basis.

Cash Management

- 8.3 Cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The officers closely monitor the management of the Fund's cash held by the managers and custodian with a particular emphasis on the security of the cash.
- 8.4 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies.
- 8.5 The Fund continues to deposit internally managed cash on call with Bank of Scotland and Svenska Handelsbanken. The Fund also deposits cash with the Goldman Sachs Asset Management Global Treasury Fund (AAA rated). In addition The Fund has access to the Government's Debt Management Office, however the interest paid currently may not cover the transfer and administration costs incurred. Deposits with NatWest (the Council / Fund's banker) are kept to the minimum necessary for day to day management.
- 8.6 During the year there were no breaches of the Fund's Treasury Management Policy for 2016-17 (approved March 2016).
- 8.7 The 2016/17 Service Plan forecast an average cash outflow of c. £1.5m each month during the year to 31 March 2017, making a total outflow of £17.5m for the year to 31st March 2017. The actual cash out-flow for the year was £16.6m. Further details are provided in the pension fund budget and cash flow monitoring report to this Committee.
- 8.8 The 2017/18 Service Plan forecast an average cash outflow of c. £1.37m each month during the year to 31 March 2018. However this was based on the assumption that deficit contributions required by the 2016 Triennial Valuation would be spread over three years. In fact several major employers elected to pay their three year deficit contributions in April 2017 in order to achieve a discount. The consequent £86m cash in-flow was immediately passed on to the Fund's custodian to be available for investment.
- 8.9 As a consequence of the advance payments of deficit contributions the Fund will experience continued monthly net cash outflows. These will be managed by taking more income from the investment portfolio.

9 CORPORATE GOVERNANCE UPDATE

- 9.1 During the quarter, the Fund's external managers undertook the following voting activity on behalf of the Fund:

Companies Meetings Voted:	107
Resolutions voted:	1517
Votes For:	1372
Votes Against:	139
Abstained:	15
Withheld* vote:	0

** A withheld vote is essentially the same as a vote to abstain, it reflects a view to vote neither for or against a resolution. Although the use of 'abstain' or 'withheld' reflects the different terms used in different jurisdictions, a 'withheld' vote can often be interpreted as a*

more explicit vote against management. Both votes may be counted as votes against management, where a minimum threshold of support is required.

9.2 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF's activity in the quarter is summarised in their quarterly engagement report at Appendix 4.

10 RISK MANAGEMENT

10.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors (i) the strategic policy and funding level in terms of whether the strategy is on course to fund the pension liabilities as required by the funding plan and (ii) the performance of the investment managers. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

11 EQUALITIES

11.1 An Equality Impact Assessment has not been completed as this report is for information only.

12 CONSULTATION

12.1 This report is for information and therefore consultation is not necessary.

13 ISSUES TO CONSIDER IN REACHING THE DECISION

13.1 The issues to consider are contained in the report.

14 ADVICE SOUGHT

14.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
Background papers	Data supplied by BNY Performance Services
Please contact the report author if you need to access this report in an alternative format	

AVON PENSION FUND VALUATION - 31 MARCH 2017

	Passive Multi-Asset	Active Equities					Enhanced Indexation		Active Bonds	Funds of Hedge Funds		DGFs		Property		Infra- structure	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	BlackRock	TT Int'l	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	Invesco	SSgA	Royal London	JP Morgan	Terminating Mandates	Pyrford	Standard Life	Schroder - UK	Partners - Overseas	IFM	Record	General Cash		
EQUITIES																				
UK	196.8	229.4	190.7			19.5													636.5	14.61%
North America	98.0					197.9													295.8	6.8%
Europe	99.6					46.6		55.5											201.8	4.6%
Japan	14.8					24.3		60.5											99.5	2.3%
Pacific Rim	54.2					12.6		44.4											111.3	2.6%
Emerging Markets				196.6	223.2	34.4												0.0	454.2	10.4%
Global ex-UK							388.1												388.1	8.9%
Global inc-UK																	5.7		5.7	0.1%
Total Overseas	266.6	0.0	0.0	196.6	223.2	315.7	388.1	160.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.7	0.0	1556.3	35.7%
Total Equities	463.4	229.4	190.7	196.6	223.2	335.3	388.1	160.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.7	0.0	2192.8	50.3%
DGFs												138.5	236.9						375.4	8.6%
Hedge Funds										226.1	2.5								228.7	5.2%
Property														188.0	192.4				380.3	8.7%
Infrastructure																256.0			256.0	5.9%
BONDS																				
Index Linked Gilts	511.3																		511.3	11.7%
Conventional Gilts																			0.0	0.0%
Corporate Bonds	80.5								260.8										341.3	7.8%
Overseas Bonds																			0.0	0.0%
Total Bonds	591.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	260.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	852.6	19.6%
Cash	5.8	7.2	9.1			2.0								13.7				28.1	65.9	1.5%
FX Hedging																	4.7		4.7	0.1%
TOTAL	1061.0	236.6	199.8	196.6	223.2	337.3	388.1	160.5	260.8	226.1	2.5	138.5	236.9	201.6	192.4	256.0	10.3	28.1	4356.3	100.0%

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AVON PENSION FUND

ANNUAL INVESTMENT REVIEW TO 31 MARCH 2017

JUNE 2017

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IMPORTANT NOTICES

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Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

CONTENTS

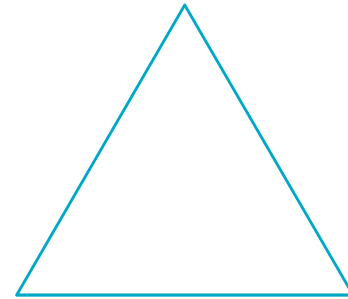
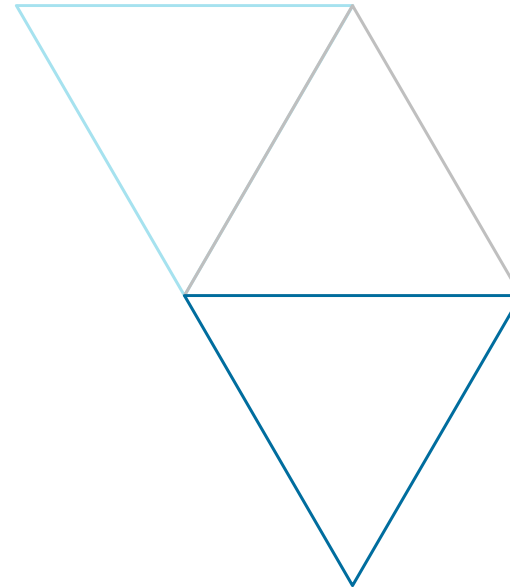
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• Appendices	27

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SECTION 1

EXECUTIVE SUMMARY

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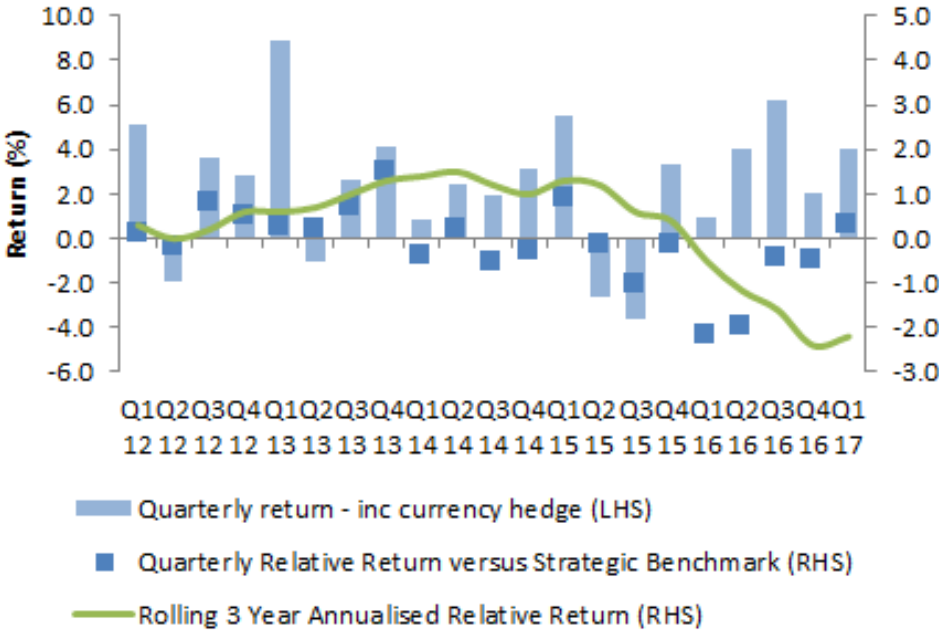


EXECUTIVE SUMMARY

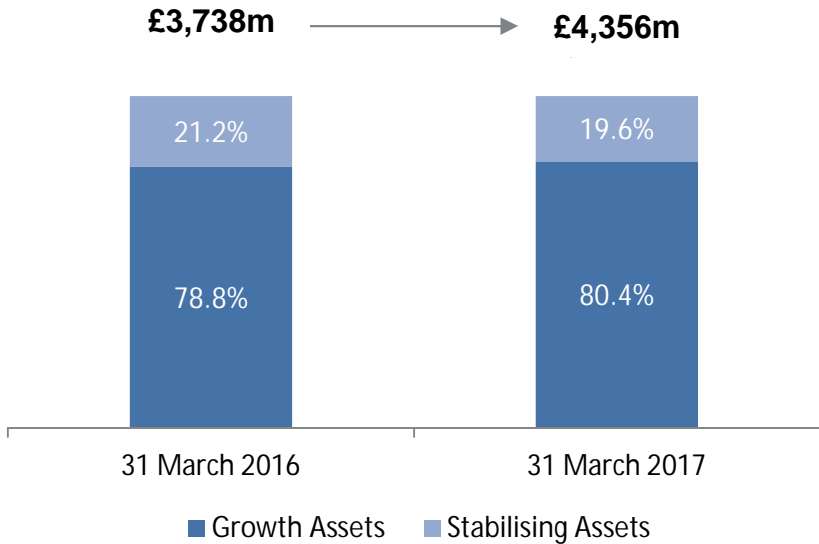
	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	4.0	17.2	9.1
Total Fund (ex currency hedge)	3.8	20.2	10.8
Strategic Benchmark (no currency hedge)	3.7	20.1	11.3
Relative (inc currency hedge)	+0.3	-2.9	-2.2

Excess Return Chart

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Asset Allocation



Commentary

Over the year total Fund assets (including currency hedging) increased from £3,738m (31 March 2016) to £4,356m.

This increase was primarily due to the strong positive performance from equities.

At a strategic level, the Fund was within the tolerance ranges in the Statement of Investment Principles for all asset classes at the end of the year.

The Fund marginally outperformed the unhedged strategic benchmark return (which excludes currency hedging) over the year. BlackRock and IFM were the main contributors to this performance whilst Unigestion, Standard Life and Jupiter were the main detractors.

When the currency hedge with Record is included, the Fund underperformed due to the significant depreciation of sterling over the year.

EXECUTIVE SUMMARY

This report has been prepared for the Committee of the Avon Pension Fund (“the Fund”), to assess the performance and risks of the investment managers of the Fund.

Funding level

- The estimated funding level increased by c.10% over the year, from 86% to 96% due to the positive return on the Fund’s assets exceeding the increase in the present value of the liabilities over the year.

Fund Performance

- The value of the Fund’s assets increased by £618m (16.5%) over the year, to £4,356m as at 31 March 2017. This increase was primarily due to the strong positive performance from equities, albeit bonds also performed strongly.

Strategy

- Global (developed) equity returns over the last three years were 16.8% p.a., materially ahead of the assumed strategic return of 8.25% p.a. from the review in March 2013. We remain broadly neutral in our medium-term outlook for developed market equities (over the next one to three years). Accommodative monetary policy remains generally supportive of equity markets but uninspiring earnings growth and downward revisions to earnings estimates persist.
- The three-year return from emerging market equities has increased to 12.9% p.a. from -1.8% p.a. last year. It is therefore above the assumed strategic return (of 8.75% p.a.) as returns have been strong over the last year and fundamentals have improved. As with developed markets, we are neutral in our medium-term outlook for emerging market equities over the next one to three years.
- UK government bond returns over the three-year period remain significantly above the long-term assumed strategic returns as investor demand for gilts remains high. Fixed interest gilts returned 14.0% p.a. versus an assumed return of 4.5% p.a. and index-linked gilts returned 14.6% p.a. versus an assumed return of 4.25% p.a.
- UK corporate bonds returned 7.5% p.a. over the three-year period against an assumed strategic return of 5.5% p.a. The three-year UK property return of 11.2% p.a. remains substantially above the assumed return of 7% p.a.

EXECUTIVE SUMMARY

Strategy (continued)

- Hedge fund returns remain below long-term averages and the strategic return of 6% p.a., having been affected by low cash rates. Active managers in general have struggled to generate meaningful returns in recent times.

Managers

- Absolute returns over the year to 31 March 2017 were strong. All mandates delivered positive absolute returns, with all overseas equities mandates returning over 20%, partly due to the significant weakening of sterling over 2016. However, a number of the active equity managers have underperformed their benchmarks over the year. This is partly due to value outperforming the wider market over the one-year period, which the Fund does not have a bias towards in its equity mandates. As such, relative performance should improve over periods where value suffers.
- Over the three-year period all mandates with a three-year track record produced positive absolute returns. A number of active funds underperformed their benchmarks over the period: Jupiter, Schroder global equities, Schroder property (over five years), Genesis, Unigestion, Pyrford and Partners (see comments on the measurement of Partners' performance later). TT, Invesco and Royal London failed to achieve their performance objectives but did outperform their respective benchmarks, net of fees. The SSgA mandates achieved their three-year performance objectives.

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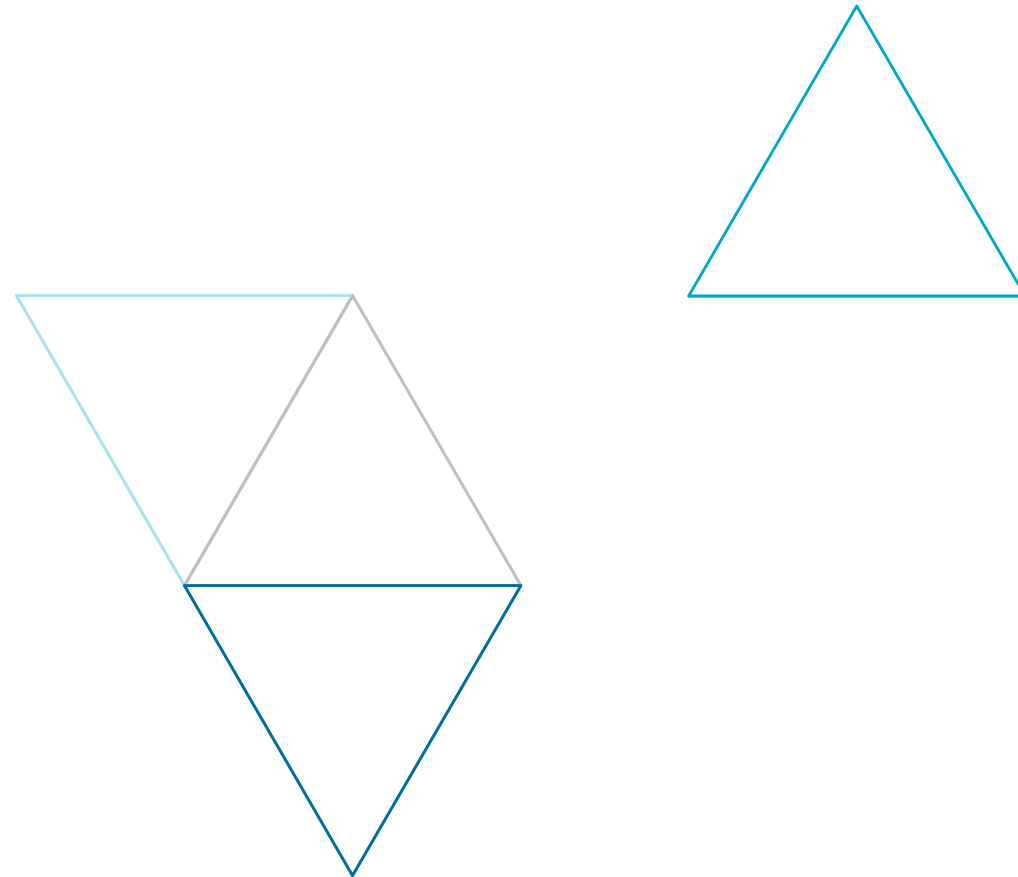
Key Points for Consideration

- Implementation of a liability risk management framework is in progress with BlackRock, which will include market-based triggers for increasing the level of hedging.
- An in-depth review of the Fund's broader investment strategy is also underway. The scope of this review includes the overall asset allocation, structure of the equity portfolio, possible approaches to equity risk management, future collateral management and currency hedging.

SECTION 2

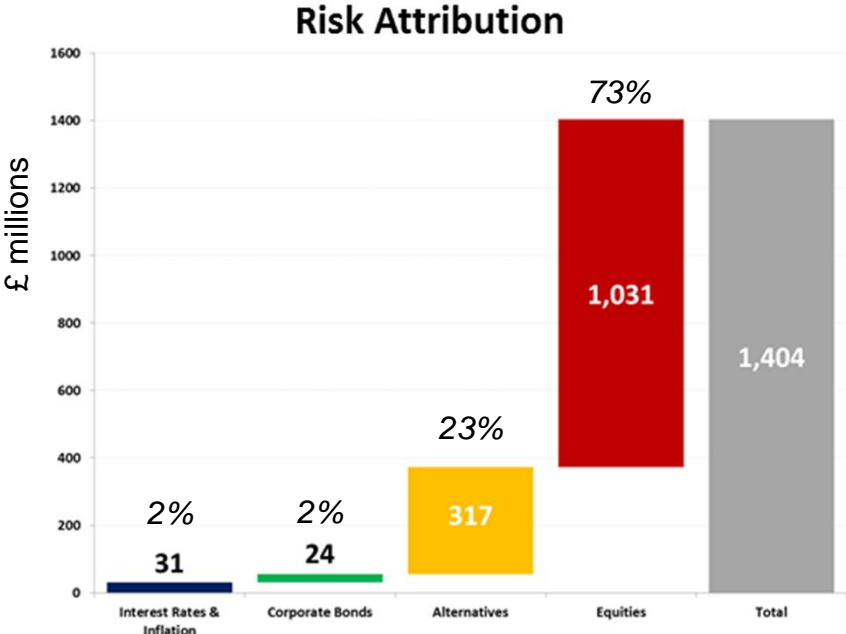
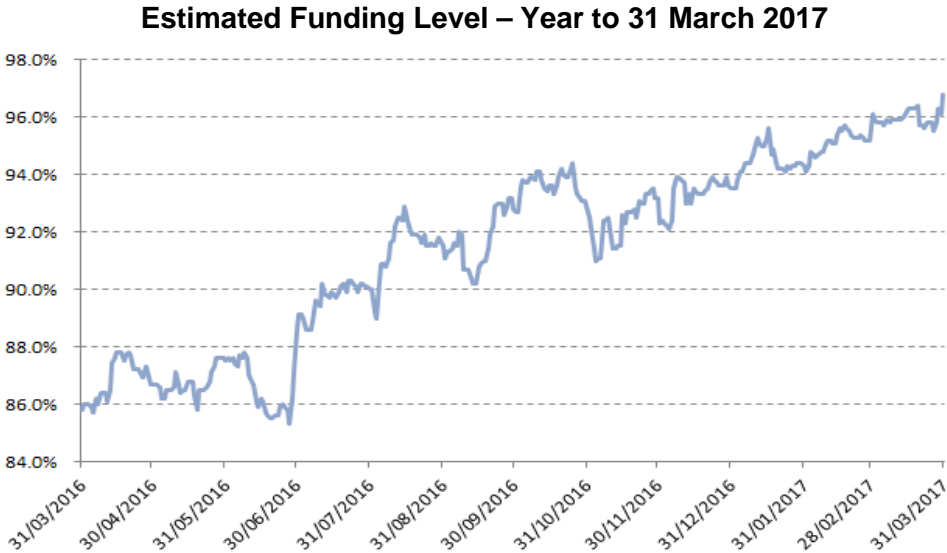
CONSIDERATION OF FUNDING LEVEL

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CONSIDERATION OF FUNDING LEVEL YEAR TO 31 MARCH 2017

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The charts above illustrate the estimated progression of the funding level (on the 2016 actuarial valuation basis) over the year to 31 March 2017 on the left hand side, and on the right the main risks the Fund is exposed to, again on the 2016 valuation basis, and also the size of these risks in the context of the deficit position. The purpose of showing this chart is to provide an awareness of the risks faced and how they change over time and to initiate debate on an ongoing basis, around how to best manage these risks, so as not to lose sight of the “big picture”.

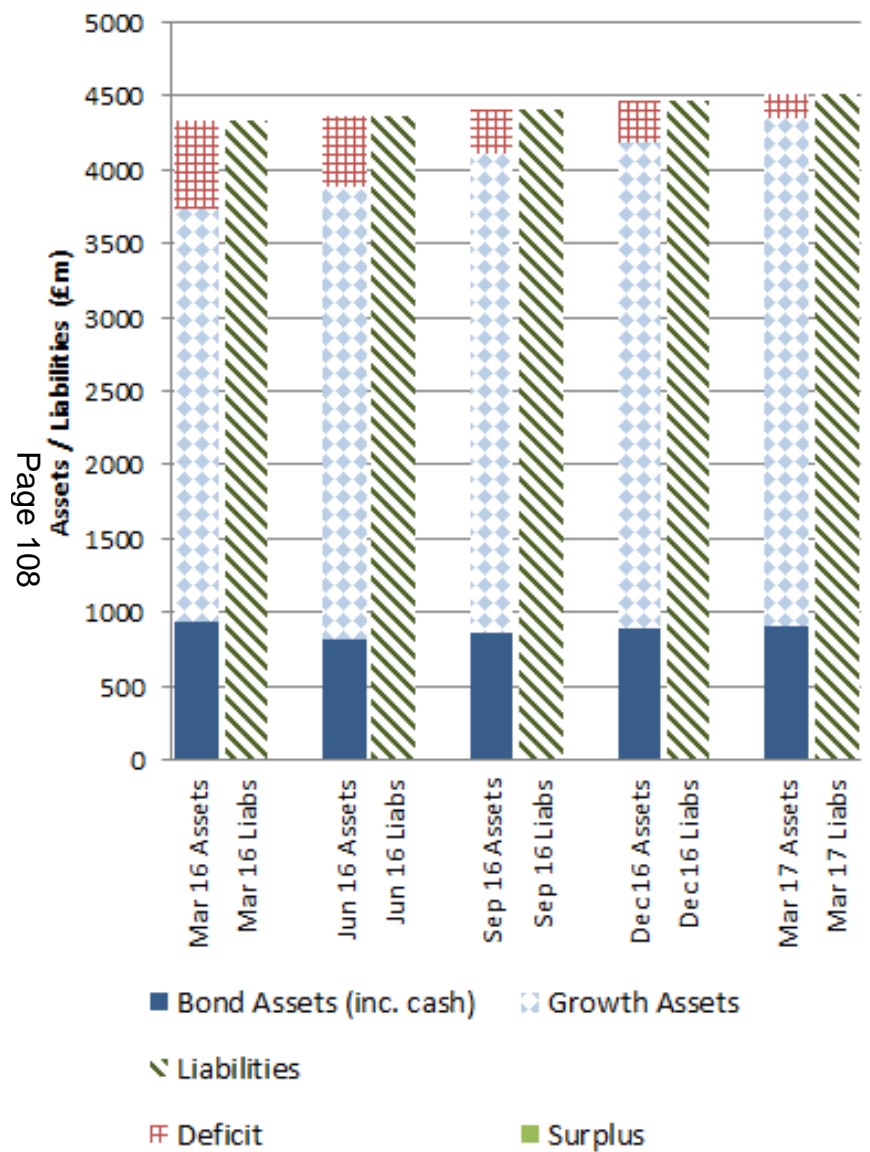
The black column on the right hand side of this chart shows the estimated 95th percentile Value at Risk figure over a one-year period. In other words, if we consider the worst case outcome which has a 1 in 20 chance of occurring, this is the impact on the deficit relative to our “best estimate” of what the deficit would be in one year’s time. As at 31 March 2016, the chart shows that if a 1 in 20 “downside event” occurred, we would expect that in one year’s time, the deficit would increase by an additional **£1,404m** on top of the expected deficit at that time.

Each bar to the left of the black bar represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, and volatility of equity markets and alternative assets). **It should be noted that while these figures indicate levels of volatility on the downside, there is also a potential upside benefit from taking these risks.** Equity risk dominates as the significant driver of volatility.

The VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

CONSIDERATION OF FUNDING LEVEL

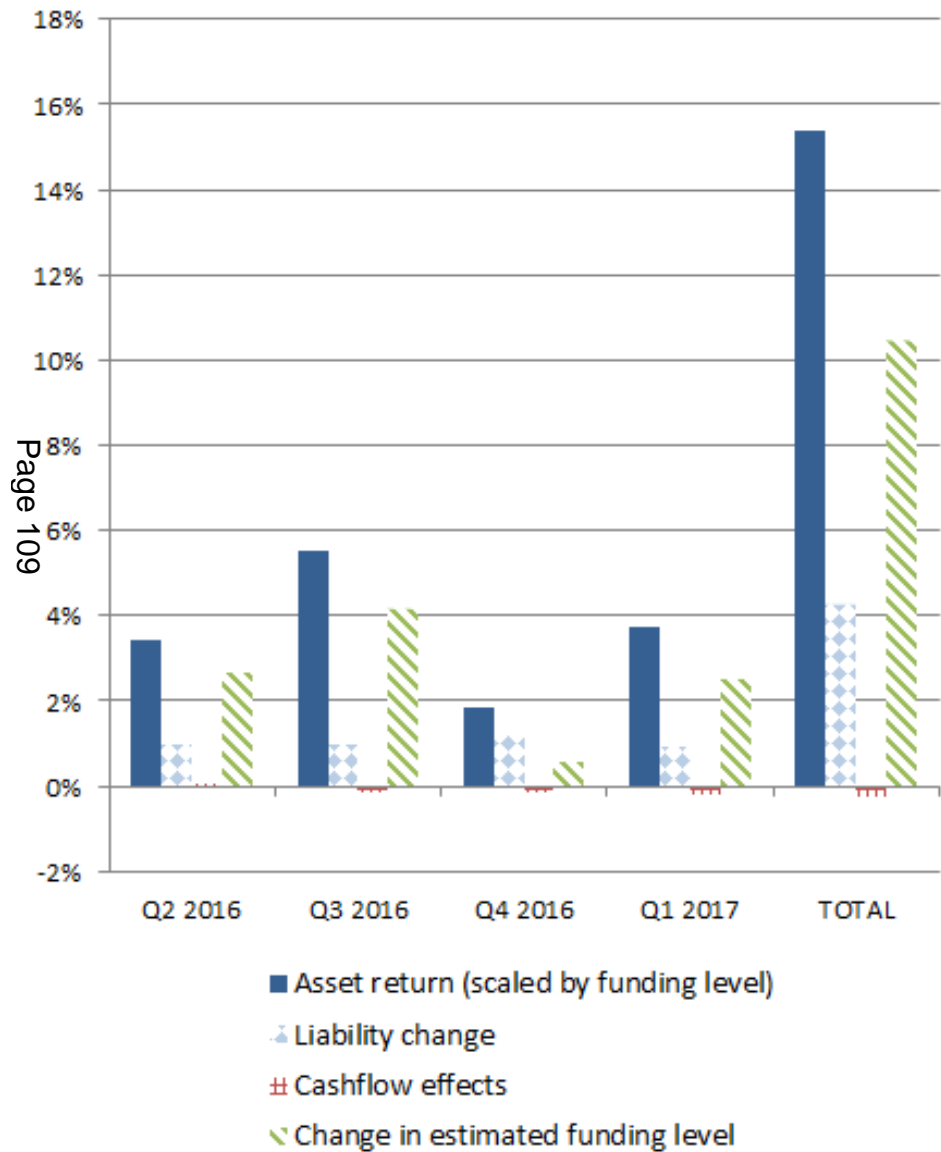
ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and cashflows into the Fund, the estimated funding level increased by c.10% over the year, all else being equal, from 86% to 96%. This was driven by a positive return on assets outweighing an increase in the present value of the liabilities.
- This is calculated using the new actuarial valuation as at 31 March 2016 and the “CPI plus” discount basis.

CONSIDERATION OF FUNDING LEVEL

FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES

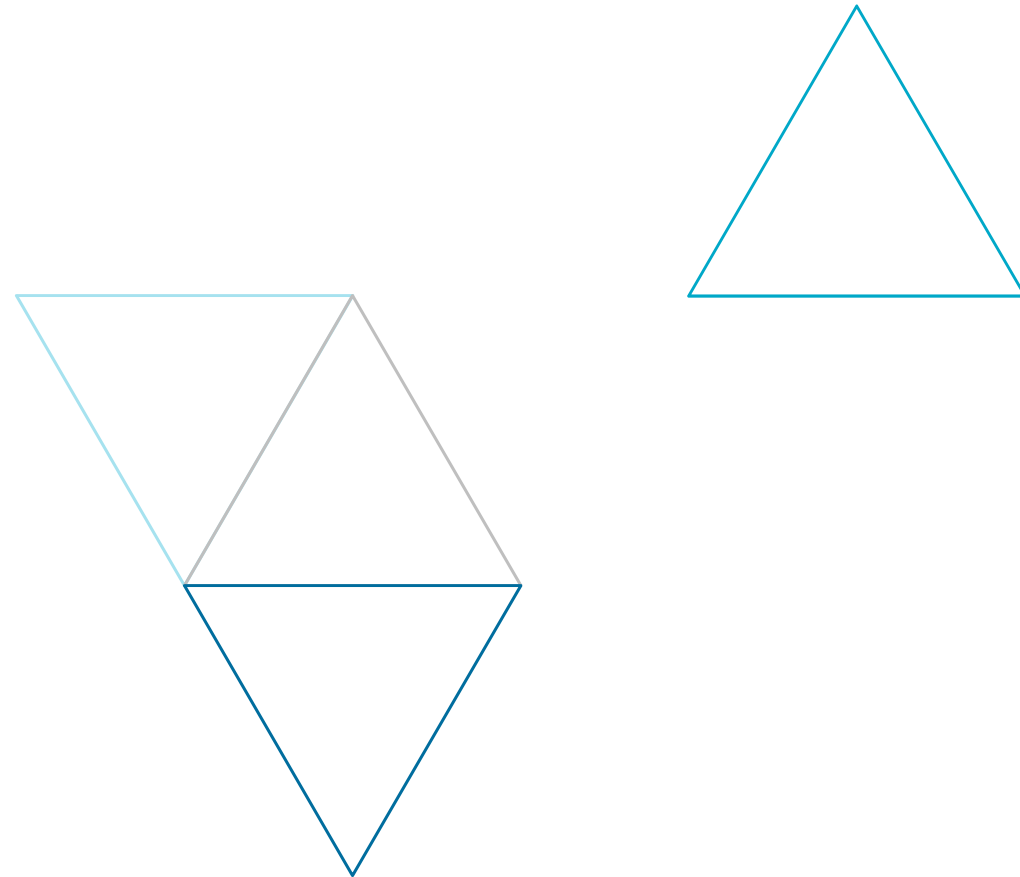


- Over the 12 month period, the funding level has risen by c.10% due to the positive return on the Fund's assets exceeding the increase in the present value of the liabilities over the year.
- The Fund's assets returned 17.2% over the year, which, when allowing for the funding position, increased the funding level by 15.4%.

SECTION 3

FUND VALUATIONS

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FUND VALUATIONS

VALUATION BY ASSET CLASS

Asset Allocation							
Asset Class	31/03/2016 (£'000)	31/03/2017 (£'000)	31/03/2016 (%)	31/03/2017 (%)	Target Strategic Benchmark (%)	Ranges (%)	Difference (%)
Developed Market Equities	1,544,963	1,776,492	41.3	40.8	40.0	35 - 45	+0.8
Emerging Market Equities	327,975	419,761	8.8	9.6	10.0	5 - 15	-0.4
Diversified Growth Funds	360,928	375,391	9.7	8.6	10.0	5 - 15	-1.4
Fund of Hedge Funds	192,394	228,648	5.1	5.2	5.0	0 - 7.5	+0.2
Property	362,097	380,488	9.7	8.7	10.0	5 - 15	-1.3
Infrastructure	-	256,003	-	5.9	5.0	0 - 7.5	+0.9
Bonds	792,149	852,657	21.2	19.6	20.0	15 - 35	-0.4
Cash (including currency instruments)	157,710	66,870	4.2	1.5	-	0 - 5	+1.5
Total	3,738,216	4,356,309	100.0	100.0	100.0		0.0

Source: BNY Mellon, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

- Invested assets increased over the year by £618m. This increase was primarily due to the strong positive performance from equities. At the end of the year, all asset classes were within the agreed tolerance ranges.

FUND VALUATIONS

VALUATION BY MANAGER

Manager Allocation					
Manager	Asset Class	31/03/2016 (£'000)	31/03/2017 (£'000)	31/03/2016 (%)	31/03/2017 (%)
BlackRock	Passive Multi-Asset	1,025,565	1,061,034	27.4	24.4
Jupiter	UK Equities	173,896	199,776	4.7	4.6
TT International	UK Equities	201,799	236,627	5.4	5.4
Scroder	Global Equities	253,892	337,292	6.8	7.7
Gesis	Emerging Market Equities	149,857	196,601	4.0	4.5
Unigestion	Emerging Market Equities	178,118	223,160	4.8	5.1
Invesco	Global ex-UK Equities	289,696	388,073	7.7	8.9
SSgA	Europe ex-UK & Pacific inc. Japan Equities	119,803	160,461	3.2	3.7
Pyrford	DGF	126,947	138,487	3.4	3.2
Standard Life	DGF	233,981	236,903	6.3	5.4

Source: BNY Mellon, Avon. Totals may not sum due to rounding.

FUND VALUATIONS

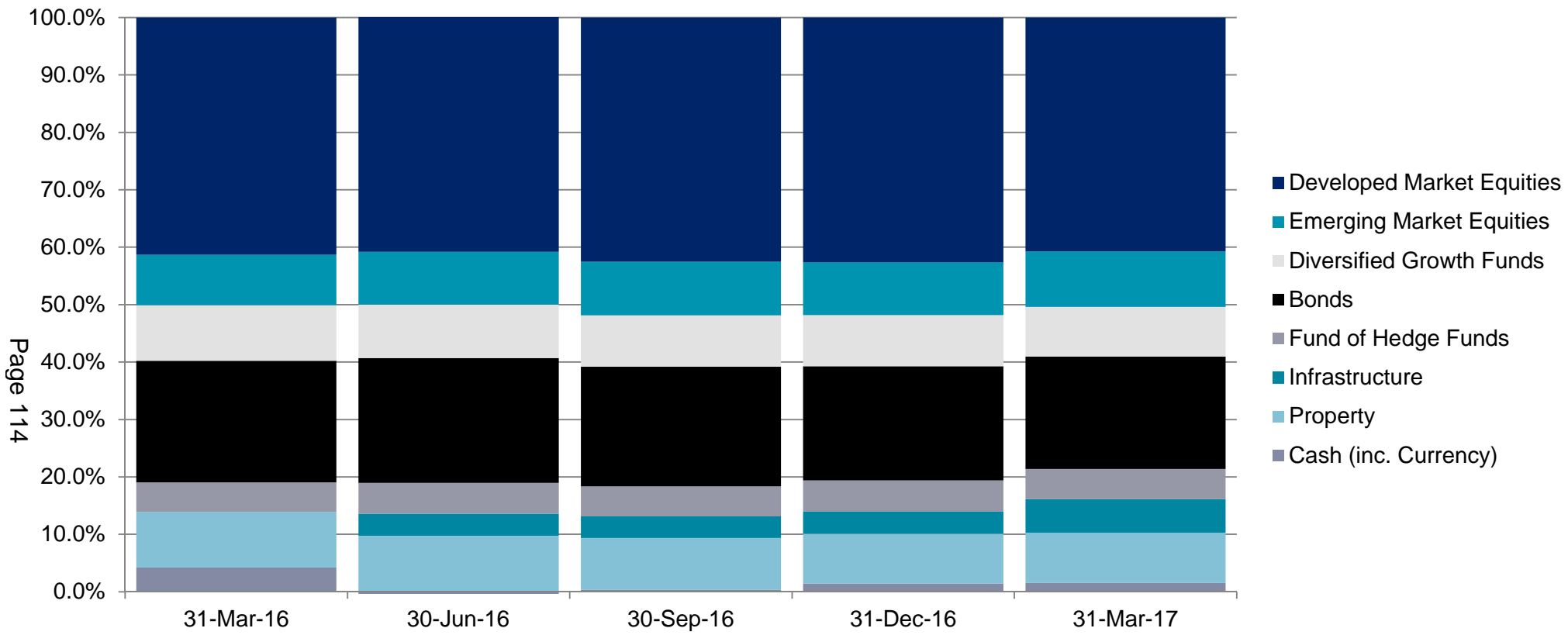
VALUATION BY MANAGER

Manager Allocation					
Manager	Asset Class	31/03/2016 (£'000)	31/03/2017 (£'000)	31/03/2016 (%)	31/03/2017 (%)
MAN	Fund of Hedge Funds	-	393	-	0.0
Signet	Fund of Hedge Funds	1,056	1,162	0.0	0.0
Gottex	Fund of Hedge Funds	3,547	971	0.1	0.0
JPMorgan	Fund of Hedge Funds	187,791	226,123	5.0	5.2
Schroder	UK Property	200,951	201,636	5.4	4.6
Partners	Property	161,950	192,361	4.3	4.4
IFM	Infrastructure	-	256,003	-	5.9
RLAM	Bonds	289,662	260,812	7.7	6.0
Record Currency Management	Currency Hedging	-29,277	10,323	-0.8	0.2
Internal Cash	Cash	169,023*	28,112	4.5	0.6
Total		3,738,216	4,356,309	100.0	100.0

Source: BNY Mellon, Avon. Totals may not sum due to rounding.

* Includes £136m transferred into the IFM infrastructure fund on 1 April 2016.

COMMENTARY ON CHANGE IN ASSET ALLOCATION OVER THE YEAR

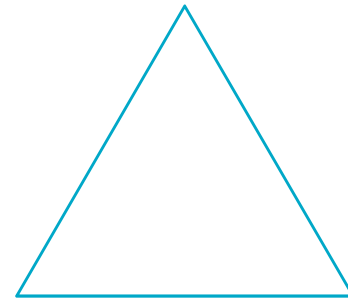
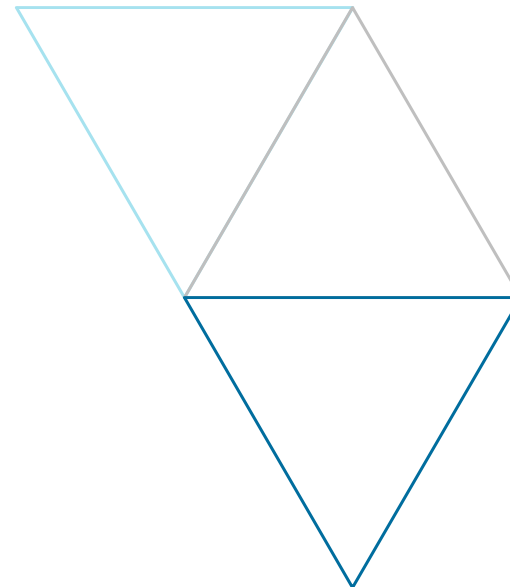


There was one change to the Fund’s asset allocation over the year. A new IFM Infrastructure fund, whose proceeds (£136m) were sourced from BlackRock developed market equities end March 2016, was funded on 1 June 2016. This was held as cash as at 31 March 2016. A further £84m was disinvested from BlackRock developed market equities and subsequently drawn down by IFM on 15 February 2017.

SECTION 4

MARKET BACKGROUND

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MARKET BACKGROUND

INDEX PERFORMANCE OVER THE YEAR

TO 31 MARCH 2017

Equity Market Review

Equities posted strongly positive returns as the ultra-accommodative monetary policy measures adopted by the world's major central banks continued to support financial markets. The strong returns posted by equities came despite bouts of volatility following the surprise result of the UK's referendum in June 2016, where the electorate voted to leave the European Union and the unexpected victory for Donald Trump in the US Presidential Election in November 2016. Over the 12 months to 31 March 2017, global equities as measured by the FTSE All World returned 33.1% in sterling terms and 17.9% in local currency terms (as sterling depreciated).

At a regional level, the major equity markets recorded strong returns in sterling terms. European markets returned 27.9%. UK stocks returned 22.0% while the FTSE Japan index returned 32.8%. The US and emerging markets equities were top performers, returning 35.2% and 35.6% respectively.

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Bond Market Review

UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned 6.6%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of 12.3% over the year. The yield for the FTSE Gilts All Stocks index fell over the year from 1.9% to 1.4%.

The FTSE All Stocks Index Linked Gilts index returned 19.9% with the corresponding over 15 year index exhibiting a return of 26.1%.

In a broad risk-on environment, credit spreads tightened over the year resulting in a total return of 9.3% for UK corporate bonds.

Currency Market Review

Over the 12 month period to 31 March 2017, Sterling fell by 13.0% against the US Dollar from \$1.437 to \$1.250. Sterling depreciated 13.75% against the Yen from ¥161.545 to ¥139.338. Sterling depreciated against the Euro by 7.3% from €1.261 to €1.164 over the same period.

Commodity Market Review

The price of Brent Crude increased by 31.7% from \$39.95 to \$52.62 per barrel over the one year period. Over the same period, the price of Gold rose 1.0% from \$1234.34 per troy ounce to \$1247.25.

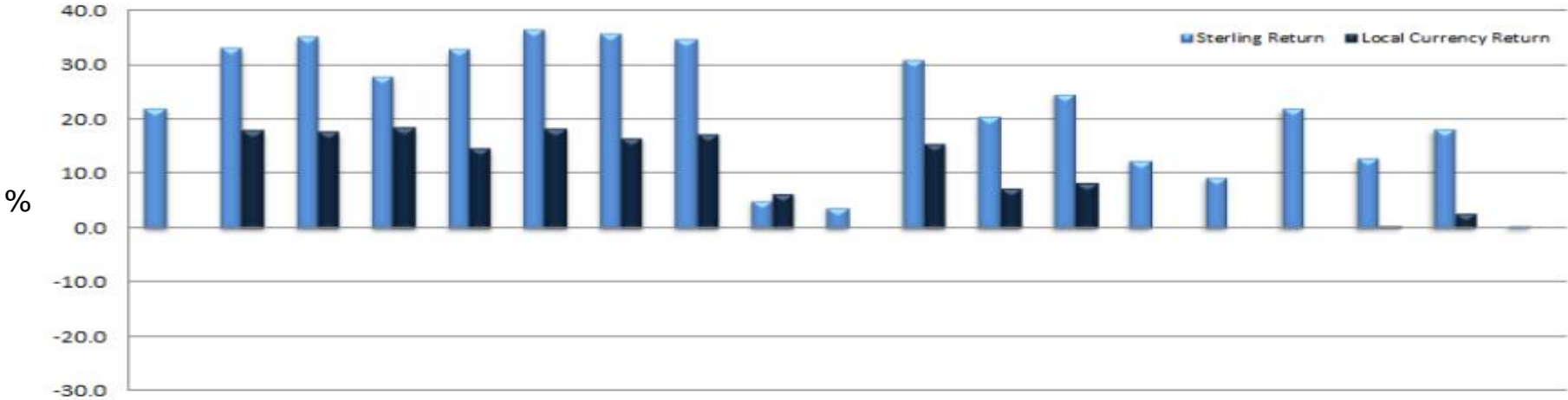
The S&P GSCI Commodity Spot Index increased by 38.0% over the one year period to 31 March 2017 in Sterling terms.

Source: Thomson Reuters Datastream.

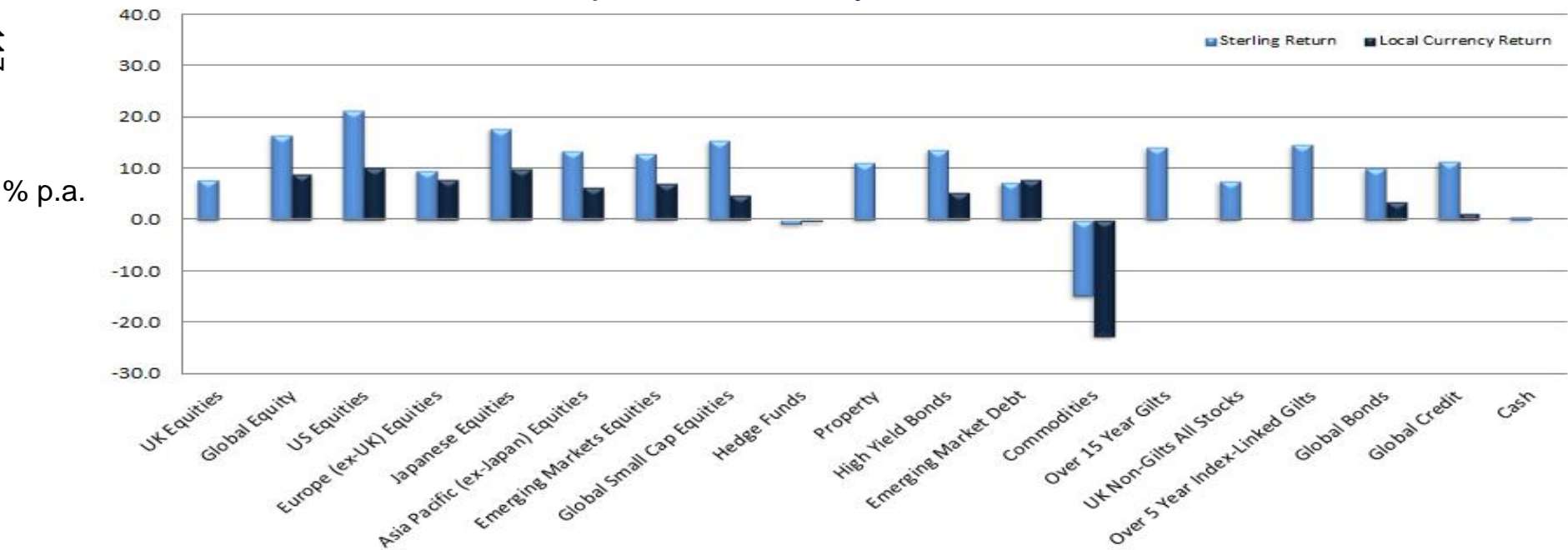
MARKET BACKGROUND

INDEX PERFORMANCE

Return over the 12 months to 31 March 2017



Return p.a. over the 3 years to 31 March 2017



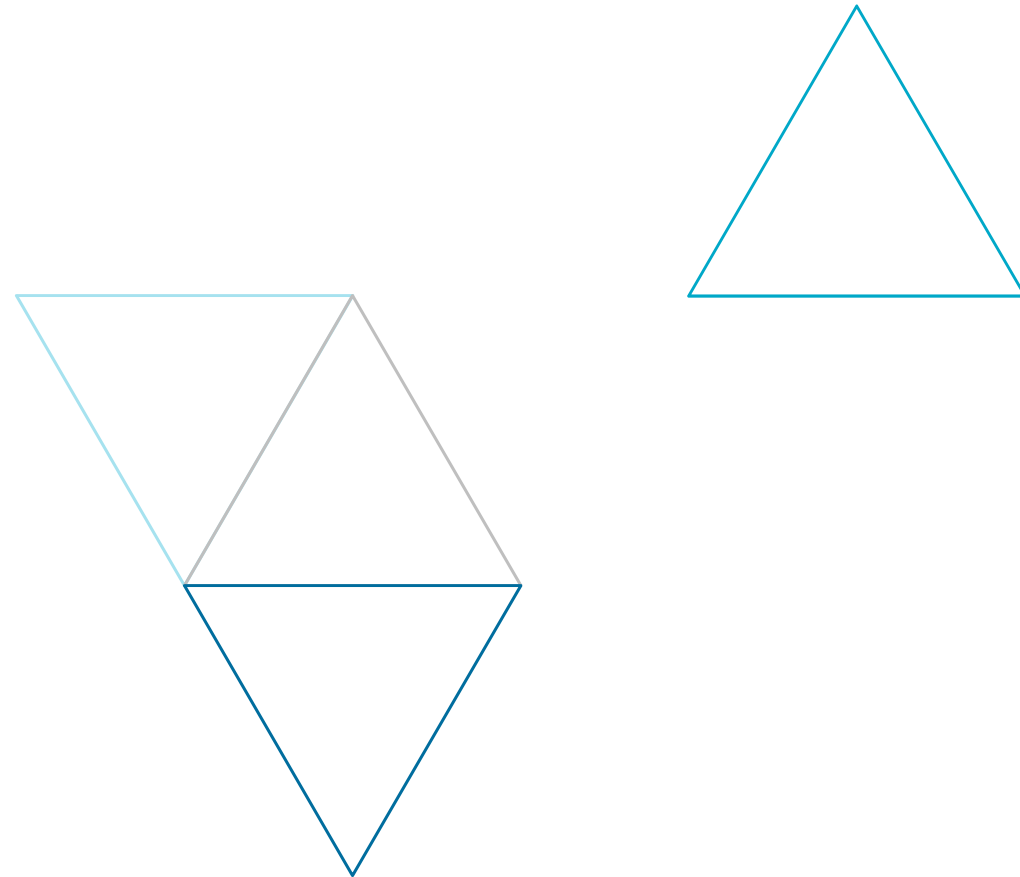
Source: Thomson Reuters Datastream.

SECTION 5

PERFORMANCE

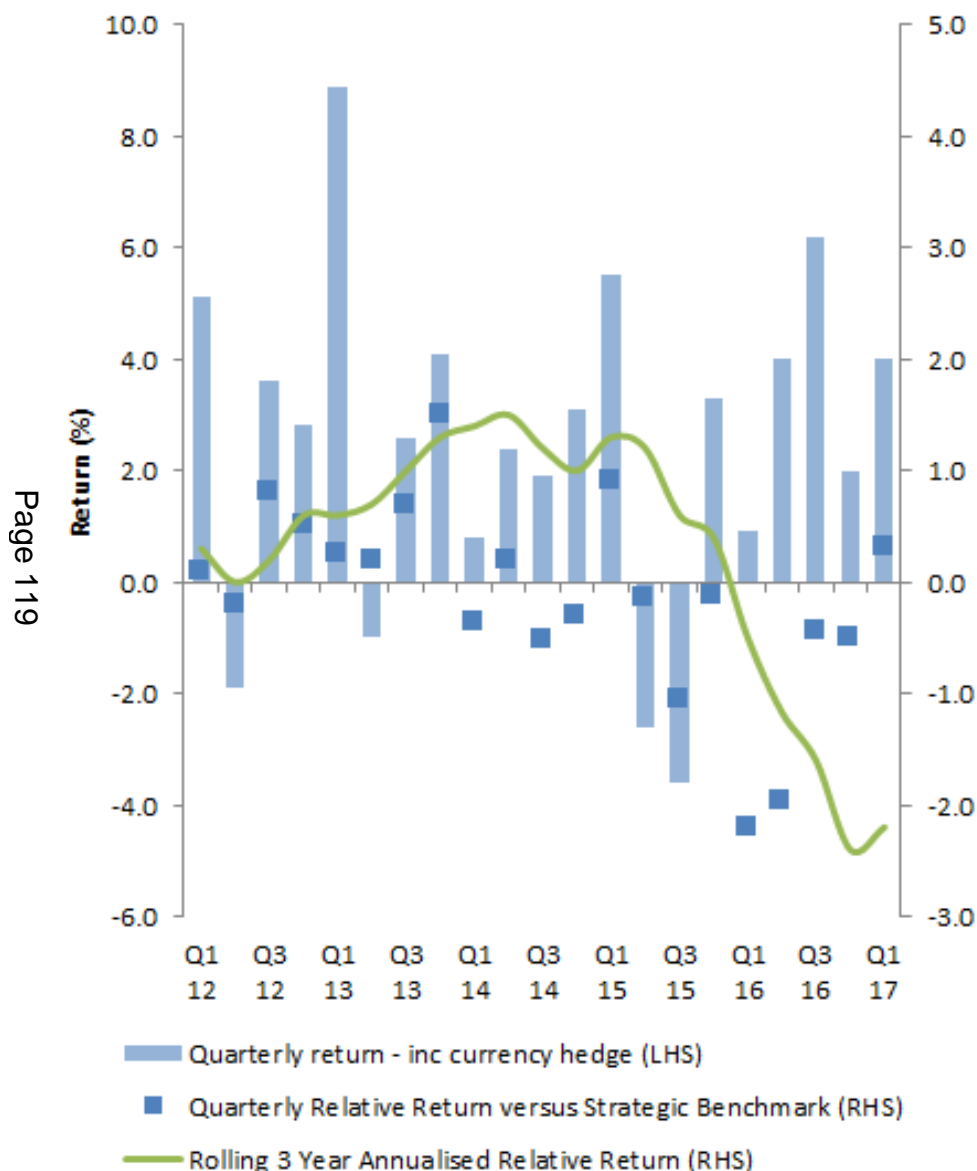
SUMMARY

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PERFORMANCE SUMMARY

TOTAL FUND PERFORMANCE



	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	4.0	17.2	9.1
Total Fund (ex currency hedge)	3.8	20.2	10.8
Strategic Benchmark (no currency hedge)	3.7	20.1	11.3
Relative (inc currency hedge)	+0.3	-2.9	-2.2

- Over the quarter, the Fund outperformed its Strategic Benchmark by 0.3% when including the currency hedge and by 0.1% excluding the currency hedge.
- Due to the underperformance over the last year, the rolling three year underperformance of the Fund increased to 2.2% p.a.
- The Fund marginally outperformed the unhedged strategic benchmark return (which excludes currency hedging) over the year. BlackRock and IFM were the main contributors to this performance whilst Unigestion, Standard Life and Jupiter were the main detractors.
- When the currency hedge with Record is included, the Fund underperformed due to the significant depreciation of sterling over the year.

PERFORMANCE SUMMARY

INDEX PERFORMANCE VS. STRATEGIC BENCHMARK

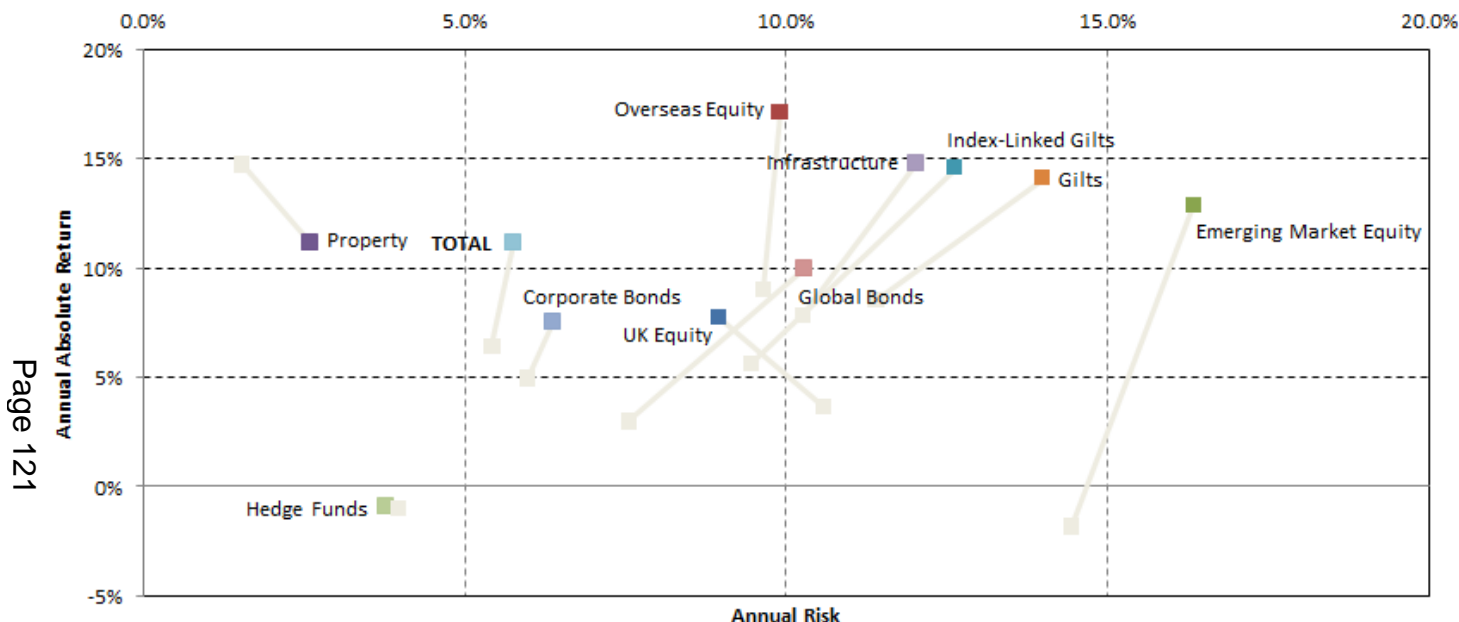
Asset Class	Weight in Strategic Benchmark (From April 2016)	Index returns		Contribution to total benchmark		Assumed strategic return	
		1 year (%)	1 year (%)	3 years (% p.a.)	3 years (% p.a.)	Return (% p.a.)	Contribution ¹ (% p.a.)
UK Equities	15.0	22.0	3.3	7.7	1.2	8.25	0.0
Overseas Equities	25.0	33.4	8.3	17.6	4.6	8.25	2.5
Emerging Market Equities	10.0	35.2	3.5	11.8	1.3	8.75	0.4
Diversified Growth Funds	10.0	4.5	0.5	4.5	0.3	4.6	-0.1
UK Government Bonds	0.0	12.3	0.4	14.0	0.3	4.5	0.2
UK Corporate Bonds	8.0	9.3	0.7	7.5	0.6	5.5	0.2
Index Linked Gilts	12.0	22.0	1.3	14.6	1.3	4.25	1.0
Overseas Fixed Interest	0.0	11.3	0.3	9.5	0.2	5.5	0.1
Fund of Hedge Funds	5.0	4.5	0.2	4.5	0.2	6.0	-0.3
Property	10.0	3.7	0.4	10.2	1.1	7.0	0.4
Infrastructure	5.0	28.4	1.4	14.8	0.5	7.0	0.4
Total Fund	100.0		20.1		11.3	6.9	4.4

Source: BNY Mellon and Mercer estimates. May not sum due to rounding.

¹ Contribution to total difference between strategic benchmark return over last three years (11.3% p.a.) and overall assumed strategic return (6.9% p.a.) – weighted by strategic benchmark.

MANAGER MONITORING RISK RETURN ANALYSIS

3 Year Risk v 3 Year Return to 31 March 2017 (31 March 2016)



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of March 2017, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from BNY Mellon). We also show the positions as at 31 March 2016, in grey.

Comments

- The most significant shift in observed returns over the year was in emerging markets equities, whose 3 year return was negative a year ago.
- Index-linked gilts, gilts, global bonds and infrastructure also saw their returns rise but with a similar increased in volatility.
- Property was the only asset class whose return fell over the year.

ACTIVE INVESTMENT MANAGER CONTRIBUTION YEAR TO 31 MARCH 2017

Asset Cass	Weight in Strategic Benchmark		Average Relative Position	Fund Return	Index Return	Currency Impact *	Asset Allocation Impact	Active Manager Impact	Total Manager Impact
	Start	End							
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
UK Equities	15.0	15.0	-1.6	18.0	22.0	+0.1	-0.2	-0.6	-0.6
Overseas Equities	25.0	25.0	2.5	33.4	32.6	+0.2	+0.1	+0.2	+0.5
Emerging Market Equities	10.0	10.0	-0.1	28.7	35.2	-	-0.1	-0.6	-0.7
Diversified Growth Funds	10.0	10.0	-0.8	3.8	4.5	-0.1	+0.2	-0.1	+0.1
UK Corporate Bonds	8.0	8.0	0.6	11.7	9.2	-0.1	+0.1	+0.2	+0.2
Index Linked Gilts	12.0	12.0	0.0	18.3	22.0	-	-0.1	-0.5	-0.6
Fund of Hedge Funds	10.0	5.0	-2.2	20.6	2.0	-	-0.1	+1.0	+1.0
Property	10.0	10.0	-0.8	9.0	12.7	+0.1	-	-0.4	-0.3
Infrastructure	0.0	5.0	1.5	22.4	3.0	-0.1	+0.3	+0.8	+1.0
Cash	0.0	0.0	1.1	-	-	-0.1	-3.4**	-	-3.5
Total Fund	100.0	100.0		17.2	20.1	-	-3.1	+0.3	-2.9

Source: BNY Mellon and Mercer estimates. May not sum due to rounding.

Average overweight position taken as the average of the beginning and end of year weights.

* This represents the impact currency volatility had at individual manager level, rather than at the total Fund return level.

** -3.0% of -3.4% cash asset allocation impact is attributable to the Funds currency hedge.

MANAGER MONITORING

MANAGER PERFORMANCE TO 31 MARCH 2017

Manager / fund	1 year (%)			3 year (% p.a.)			3 year outperformance target (% p.a.)	3 year performance versus target
	Fund	B'mark	Relative	Fund	B'mark	Relative		
BlackRock Multi-Asset	23.4	23.0	+0.4	13.0	12.7	+0.2	-	Target met
Jupiter	14.9	22.0	-5.8	7.5	7.7	-0.2	+2	Target not met
TT International	16.9	22.0	-4.1	8.3	7.7	+0.5	+3-4	Target not met
Schroder Equity	32.2	33.0	-0.6	15.7	16.3	-0.5	+4	Target not met
Genesis	31.7	35.2	-2.6	10.8	11.8	-0.9	-	Target not met
Unigestion	25.3	34.7	-7.0	10.2	11.4	-1.0	+2-4	Target not met
Invesco	34.0	32.6	+1.1	17.4	16.9	+0.4	+0.5	Target not met
SSgA Europe	29.9	28.0	+1.5	10.3	9.6	+0.6	+0.5	Target met
SSgA Pacific	35.7	34.7	+0.7	16.4	15.6	+0.7	+0.5	Target met
Pyrford	9.1	8.1	+0.9	6.0	6.9	-0.8	-	Target not met
Standard Life	0.6	5.6	-4.7	N/A	N/A	N/A	-	N/A
JP Morgan *	4.8	3.5	+1.2	N/A	N/A	N/A	-	N/A
Schroder Property	2.6	3.7	-1.1	10.0	10.2	-0.2	+1	Target not met
Partners Property	N/A	N/A	N/A	7.8 **	10.0 **	-2.0 **	-	Target not met
IFM	N/A	N/A	N/A	6.7 ***	2.1 ***	+4.5 ***	-	N/A
RLAM	10.8	9.2	+1.5	8.0	7.5	+0.5	+0.8	Target not met
Internal Cash	-1.4	0.2	-1.6	-0.2	0.3	-0.5	-	N/A

- Source: BNY Mellon, Avon, Mercer estimates.
- Returns are in GBP terms, consistent with overall fund return calculations before currency hedging in applied, except for JP Morgan, Partners and IFM, whose performance is shown as IRR in local currency terms.
- In the relative performance columns, returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.
- In the table above, and throughout this report, relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically (where the benchmark return is subtracted from the portfolio return).
- In the table above, Partners performance is measured against an IRR target of 10% p.a.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.

* Performance is in US dollar terms.

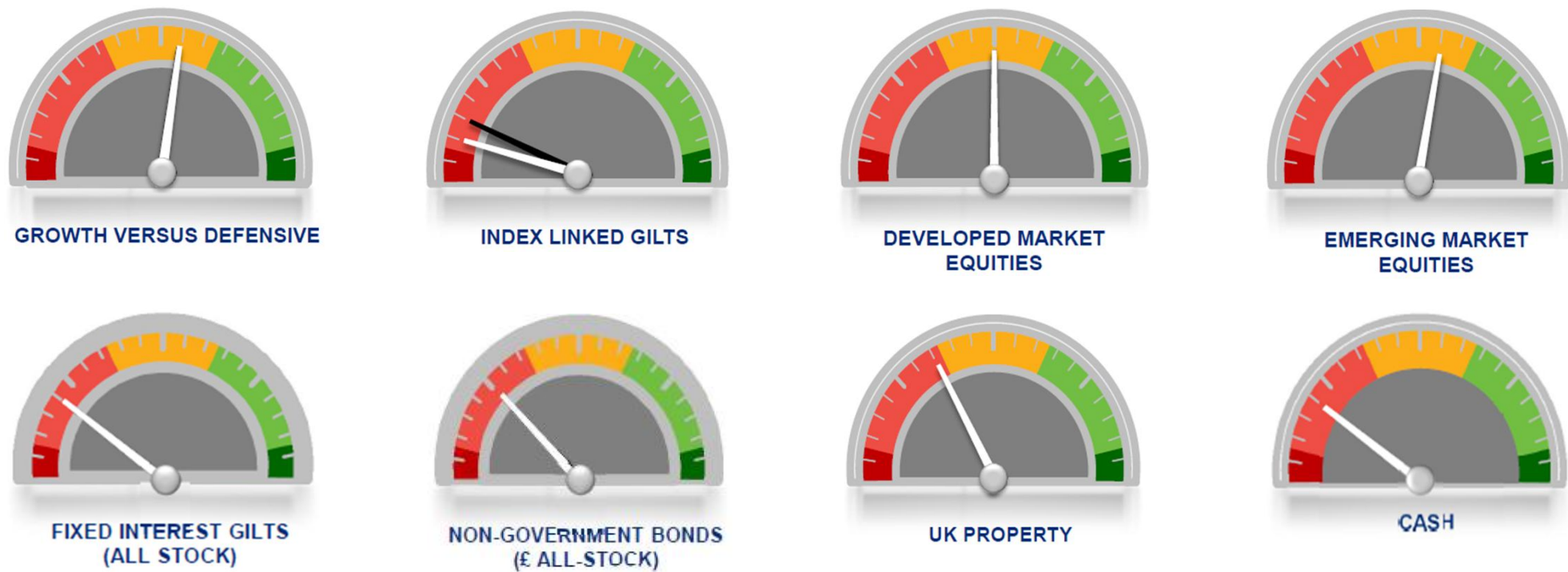
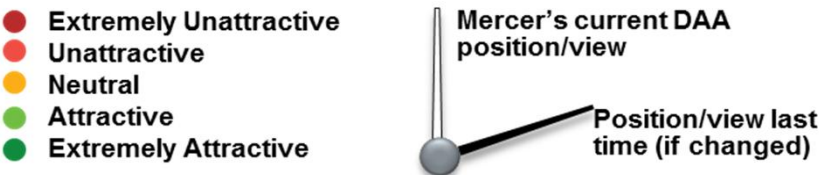
** Performance is shown since inception and in local currency terms.

*** Performance is shown since inception and in US dollar terms.

FORWARD LOOKING RETURN EXPECTATIONS

31 MARCH 2017

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The charts above summarise Mercer's views on the medium term (1-3 years) outlook for returns from the key asset classes. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Fund to make frequent tactical changes to their asset allocation based upon these views.

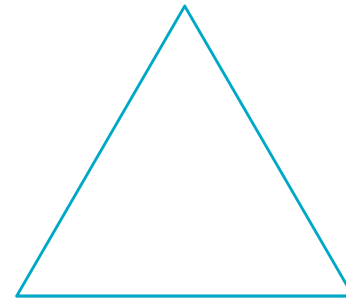
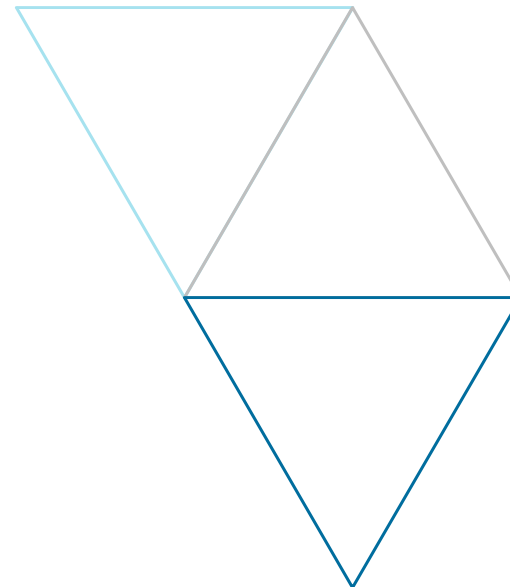
FORWARD LOOKING RETURN EXPECTATIONS CHANGES OVER THE LAST YEAR

Asset Class	Apr 2016	Jul 2016	Oct 2016	Jan 2017	Apr 2017
Fixed Interest Gilts	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive
Index-Linked Gilts	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive
Non-Government Bonds (£ All-Stocks)	Unattractive	Unattractive	Unattractive	Unattractive	Unattractive
Global Equities	Neutral	Neutral	Neutral	Neutral	Neutral
Emerging Market Equities	Neutral	Neutral	Neutral	Neutral	Neutral
Small Cap Equities	Neutral	Neutral	Neutral	Neutral	Neutral
Low Volatility Equities	Neutral	Neutral	Neutral	Unattractive	Unattractive
UK Property	Neutral	Unattractive	Unattractive	Unattractive	Unattractive
High Yield Bonds	Neutral	Neutral	Unattractive	Unattractive	Unattractive
Local Currency Emerging Market Debt	Unattractive	Neutral	Neutral	Neutral	Neutral

APPENDIX 1

MANAGER MONITORING

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MANAGER MONITORING UK EQUITIES

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance *	Fund	B'mark	Relative	Target	Contribution to outperformance *
Jupiter	14.9	22.0	-5.8	-0.30	7.5	7.7	-0.2	+2	-0.03
TT International	16.9	22.0	-4.1	-0.23	8.3	7.7	+0.5	+3-4	+0.02

Source: BNY Mellon / Mercer estimates.

* "Contribution to outperformance" is the annualised impact on total return of the individual managers' performance relative to their benchmark over the periods measured, and provides an indication of the relative impact of manager out- or under-performance.

Market Commentary

- UK equities rose over the year, returning 22.0%, despite bouts of volatility following the surprise result of the UK's EU referendum in June 2016. This lagged global markets which returned 33.1% in sterling terms.

Performance Commentary

- Jupiter have underperformed the benchmark and target over the one and three year periods. Tracking error has stayed at 4.5% over the year. The fund underperformed the median UK active manager in Mercer's universe over the year.
- Jupiter's holdings remain noticeably different from the benchmark, due in large part to its Socially Responsible Investment objectives – having a significant underweight to large cap stocks and overweight to midcap stocks.
- TT's unconstrained mandate significantly underperformed over the year by 4.1%, with sector allocation being a significant detractor from returns. The mandate outperformed over the three year period by 0.5% p.a., lagging the target.
- Over the year, the portfolio has held an underweight position in Financials, and security selection in that sector also proved to be poor.

MANAGER MONITORING DEVELOPED GLOBAL EQUITIES

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Invesco	34.0	32.6	+1.1	+0.09	17.4	16.9	+0.4	+0.5	+0.04
SSgA Europe	29.9	28.0	+1.5	+0.03	10.3	9.6	+0.6	+0.5	+0.01
SSgA Pacific	35.7	34.7	+0.7	+0.03	16.4	15.6	+0.7	+0.5	+0.02
Schroder	32.2	33.0	-0.6	-0.04	15.7	16.3	-0.5	+4	-0.04

Source: BNY Mellon / Mercer estimates.

Market Commentary

- Global equities returned 33.1% over the year in sterling terms, with strong performance across all the major regions: US equities delivered a return 35.2%, Europe 27.9%, Japan 32.8% and Asia Pacific 36.5% (all in sterling terms).

Performance Commentary

- Invesco outperformed over the year and three year periods by 1.1% and 0.4% p.a. vs an outperformance target of 0.5% p.a. Invesco's tracking error remains small at 1.2% p.a. since inception, while sector and country allocations remain relatively close to benchmark weightings (as would be expected for an enhanced indexation product), with all within +/- 1.0% at 31 March 2017, with the exception of Financials, which were 1.1% underweight.
- Both SSgA funds outperformed over the year and three year periods.
- Schroder underperformed over the year and three year periods, with a three year tracking error of 2.5%.

MANAGER MONITORING EMERGING MARKET EQUITIES

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Genesis	31.7	35.2	-2.6	-0.13	10.8	11.8	-0.9	-	-0.05
Unigestion	25.3	34.7	-7.0	-0.38	10.2	11.4	-1.0	+2-4	-0.07

Source: BNY Mellon / Mercer estimates.

Market Commentary

- Emerging market equities, measured by FTSE All World Emerging, rose by 35.6% over the year, outperforming their developed market counterparts (FTSE All World Developed) which returned 32.9%, as headwinds from key economies (e.g. China) diminished, fundamentals and resilience to developed market shocks improved and export growth accelerated.

Performance Commentary

- Genesis underperformed by 2.6% over the year. This is not unexpected due to their style. This was largely due to underperformance in Q3 2016 and Q1 2017, when the portfolio's Indian and Russian holdings detracted respectively. The fund also underperformed over the three years, by 0.9% p.a.
- Unigestion underperformed by 7.0% over the year, having lagged its benchmark over every quarter. This is not unexpected due to their style. Over the three years the fund underperformed by 1.0% p.a., with lower volatility than the benchmark (14.9% p.a. vs 17.9% p.a.). The largest regional weighting of the portfolio is in South Korea (c. 22%) and the vast majority of holdings (c. 82%) are in mega- or large-cap stocks.

MANAGER MONITORING FUND OF HEDGE FUNDS

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
JP Morgan	4.8	3.5	+1.2	+0.07	N/A	N/A	N/A	-	N/A

Source: BNY Mellon / JP Morgan / Mercer estimates. Returns are in US dollar terms.

Market Commentary ¹

- Fund of Hedge Funds have generally lagged equity markets over the year and three years; over the year to 31 March 2017 the HFRI index rose 5.2%, the HFRX index returned 6.2% and the Dow Jones Credit Suisse Hedge Fund Index returned 5.7%.
- Looking at specific sectors, relative value strategies produced positive returns with fixed income and convertible arbitrage strategies returning 8.0% and 9.4% over the year.
- Long/short equity strategies benefitted from positive market tailwinds returning 3.9%, while market neutral strategies detracted -2.2% over the year. Event driven strategies improved over the last 12 months, returning 10.4%, driven by a robust overall volume of deals.
- The broad global macro universe also produced positive returns (of 6.2%) in low volatile markets.
- We continued to see dispersion in manager results across strategies.

Performance Commentary

- JP Morgan returned 4.8% over the year (in US dollar terms), against a benchmark of 3.5%. Long/short equity and credit strategies were the biggest contributors to performance over the period.

¹ Returns are in US dollar terms; source: Credit Suisse Hedge Index LLC.

MANAGER MONITORING MULTI-ASSET AND DGF

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
BlackRock	23.4	23.0	+0.4	+0.14	13.0	12.7	+0.2	-	+0.02
Pyrford	9.1	8.1	+0.9	+0.03	6.0	6.9	-0.8	-	-0.02
Standard Life	0.6	5.6	-4.7	-0.31	N/A	N/A	N/A	-	N/A

Source: BNY Mellon / Mercer estimates.

Performance Commentary

- The passive multi-asset mandate managed by BlackRock continues to perform broadly in line with underlying indices (as expected).
- Over the last year, equity and bond markets produced positive returns. Pyrford outperformed its benchmark by 0.9% while Standard Life significantly underperformed by 4.7%.
- The benchmark used for the DGFs includes their outperformance target above cash. Growth asset returns over the year have been strong, meaning opportunities to hit the high performance targets have been wide. These targets are set over the longer term and conclusions cannot be drawn over a 12 month period.
- Pyrford has decreased its allocation to equities over the year (from 37% to 31%). This decision was made by Pyrford's Investment Strategy Committee in Q3 2016 reflecting its view that there is very little fundamental value in equities. The target allocation is now 30% in equities, 67% in fixed income and 3% in cash.
- It has been a difficult period for Standard Life since the Fund's investment was made - five out of eight quarters have seen negative absolute performance.

MANAGER MONITORING

CORPORATE BONDS

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
RLAM	10.8	9.2	+1.5	+0.09	8.0	7.5	+0.5	+0.8	+0.04

Source: BNY Mellon / Mercer estimates.

Market Commentary

- In a broad risk-on environment, credit spreads tightened over the year resulting in a total return of 9.3% for UK corporate bonds. Gilt yields decreased over the period.

Performance Commentary

- RLAM have outperformed the benchmark over the year by 1.5% and over the three year period by 0.5%, meaning they failed to meet the performance target.
- Relative to the benchmark the portfolio has a shorter duration (8.0 years vs 8.2), a higher weighted average gross redemption yield (2.8% vs 2.1%) and a significantly more concentrated portfolio of stocks (at 271 vs 1,013).
- This reflects the positioning of the strategy, which has been consistently overweight BBB and BB bonds at the expense of AAA and AA, and with a sizable allocation to unrated bond (reflecting their longstanding view that higher yielding, lower rated bonds will outperform investment grade credit).

MANAGER MONITORING PROPERTY

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Schroder	2.6	3.7	-1.1	-0.04	10.0	10.2	-0.2	+1	0.00
Partners	N/A	N/A	N/A	N/A	7.8 *	10.0 *	-2.0 *	+2	N/A

Source: BNY Mellon / Partners / Mercer estimates.

* Performance is shown since inception and in local currency terms.

Market Commentary

- The UK property market returned 3.7% over the year (measured by the UK IPD PPF All Balanced Funds Index – the benchmark for the Schroder mandate). UK property investors continue to benefit from the improving property market.
- Partners' performance target is 10% p.a. and benchmark taken as 8% p.a. (estimated net IRR, in local currency terms).

Performance Commentary

- Schroder underperformed the benchmark over the year and three year periods.
- However, over the five year period, Schroder has outperformed its benchmark by 0.6% p.a. (9.1% against a benchmark of 8.5%), largely due to performance from Value Add strategies.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2017 at 7.8% p.a. (in local currency) is below their target of 10% p.a.

MANAGER MONITORING INFRASTRUCTURE

Manager / fund	1 Year (%)				3 years (% p.a.) *				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
IFM	N/A	N/A	N/A	N/A	6.7	2.1	+4.5	-	+0.14

Source: BNY Mellon / IFM / Mercer estimates. Returns are in US dollar terms.

* Returns since inception on 1 June 2016 shown as fund has not been invested for the whole period.

Market Commentary

- The infrastructure market was strong over the year, returning 28.4% as measured by the S&P Global Infrastructure Index in sterling terms. Returns of this index have been largely driven by currency moves. The 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned.

Performance Commentary

- Over the period since inception to 31 March 2017, IFM outperformed its benchmark (cash + 2.5% p.a.) in US dollar terms.
- All the capital committed has been drawn down by IFM until Q1 2017.
- The portfolio consists of 13 holdings and nearly half of it is invested in the United States. Toll roads and airports represent the main sub-sector allocations of the fund.

MANAGER MONITORING CURRENCY

Market Commentary

- Over the 12 month period to 31 March 2017, Sterling fell by 13.0% against the US Dollar from \$1.437 to \$1.250. Sterling depreciated 13.75% against the Yen from ¥161.545 to ¥139.338. Sterling depreciated against the Euro by 7.3% from €1.261 to €1.164 over the same period.
- Sterling depreciated sharply against its major counterparts following the 'Brexit' vote. This led to material gains for unhedged Sterling investors in foreign assets.

Performance Commentary

- Following the investment in the IFM Infrastructure fund, a new passive mandate was initiated to hedge 100% of the currency exposure on infrastructure.
- Over the 12 month period to 31 March 2017, the hedging mandates have all slightly outperformed their informal benchmark returns.

Currency Hedging 12 Month Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	572,761,642	566,546,627	14.94%	(7.53%)	(7.40%)	7.26%
EUR	188,644,012	186,052,434	7.88%	(3.80%)	(3.76%)	4.57%
JPY	130,089,526	135,640,419	15.94%	(8.32%)	(8.17%)	8.75%
Total	891,495,180	888,239,480	13.66%	(6.83%)	(6.71%)	6.91%

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	194,312,572	226,422,372	14.94%	(15.18%)	(14.98%)	(0.45%)
Total	194,312,572	226,422,372	14.94%	(15.18%)	(14.98%)	(0.45%)

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	36,421,737	36,735,954	14.94%	(15.25%)	(14.97%)	(0.43%)
EUR	134,164,968	147,562,492	7.88%	(7.94%)	(7.87%)	0.69%
Total	170,586,705	184,298,446	9.33%	(9.44%)	(9.32%)	0.46%

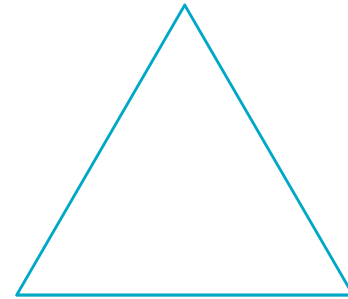
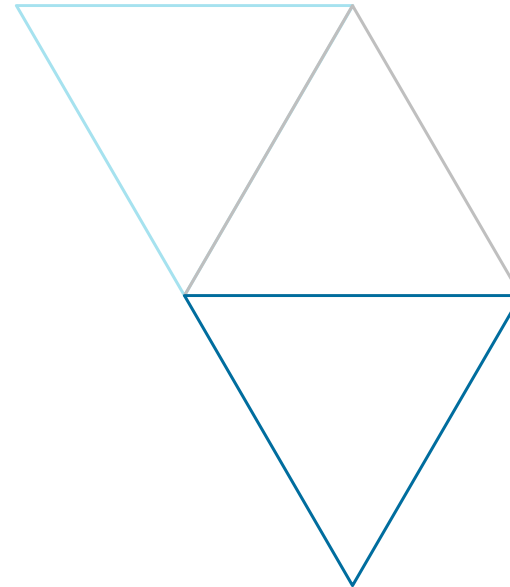
Passive Infrastructure Hedge - started on 17 May 2016

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	69,295,032	145,827,716	15.53%	(15.56%)	(15.40%)	(0.56%)
EUR	15,114,049	28,275,512	8.96%	(8.94%)	(9.01%)	0.35%
Total	84,409,081	174,103,228	14.52%	(14.54%)	(14.42%)	(0.42%)

APPENDIX 2

SUMMARY OF MANDATES

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SUMMARY OF MANDATES

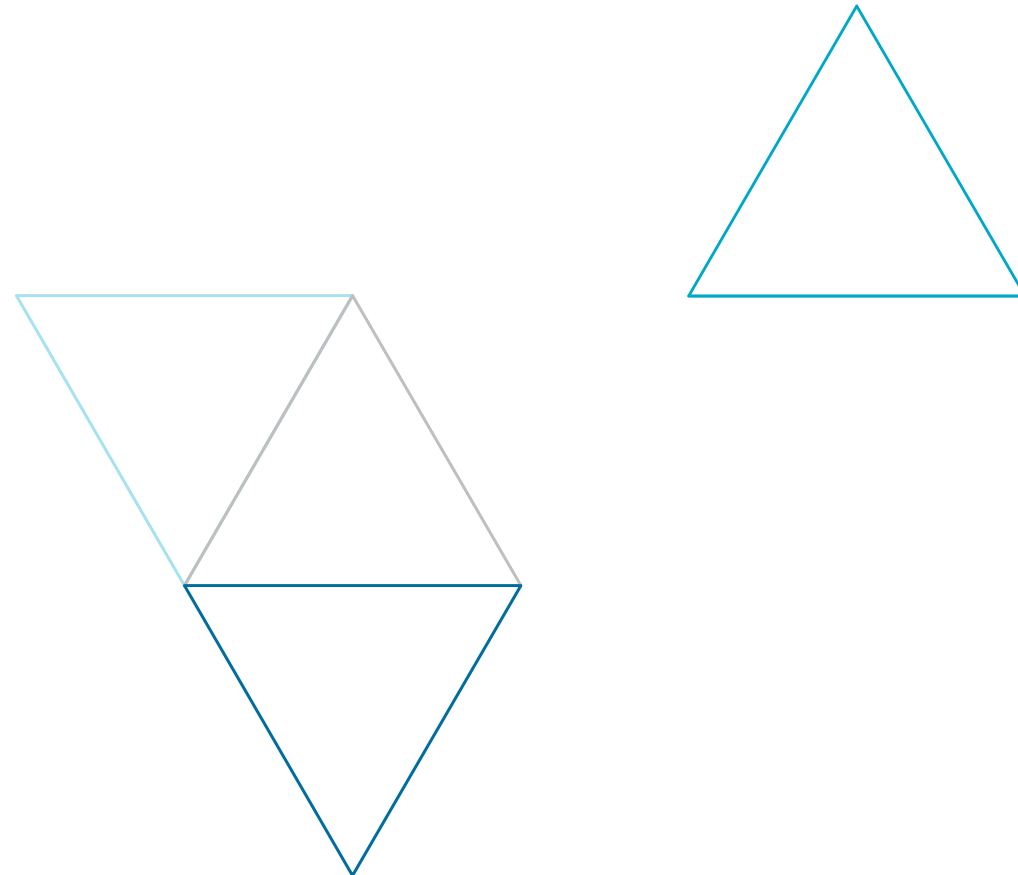
Manager	Mandate	Benchmark	Outperformance target (p.a.)
BlackRock	Passive Multi-Asset	In line with customised benchmarks using monthly mean fund weights	-
Jupiter Asset Management	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+4%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	+2-4%
Invesco	Global ex-UK Equities (Enhanced Indexation)	MSCI World ex UK NDR	+0.5%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Standard Life	Diversified Growth Fund	6 Month LIBOR +5% p.a.	-
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-
IFM	Infrastructure	6 Month LIBOR +2.5% p.a.	-
Royal London Asset Management	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
Record	Passive Currency Hedging	N/A	-
Cash	Internally Managed	7 Day LIBID	-

APPENDIX 3

MARKET STATISTICS

INDICES

Page 138



MARKET STATISTICS INDICES

Page 139

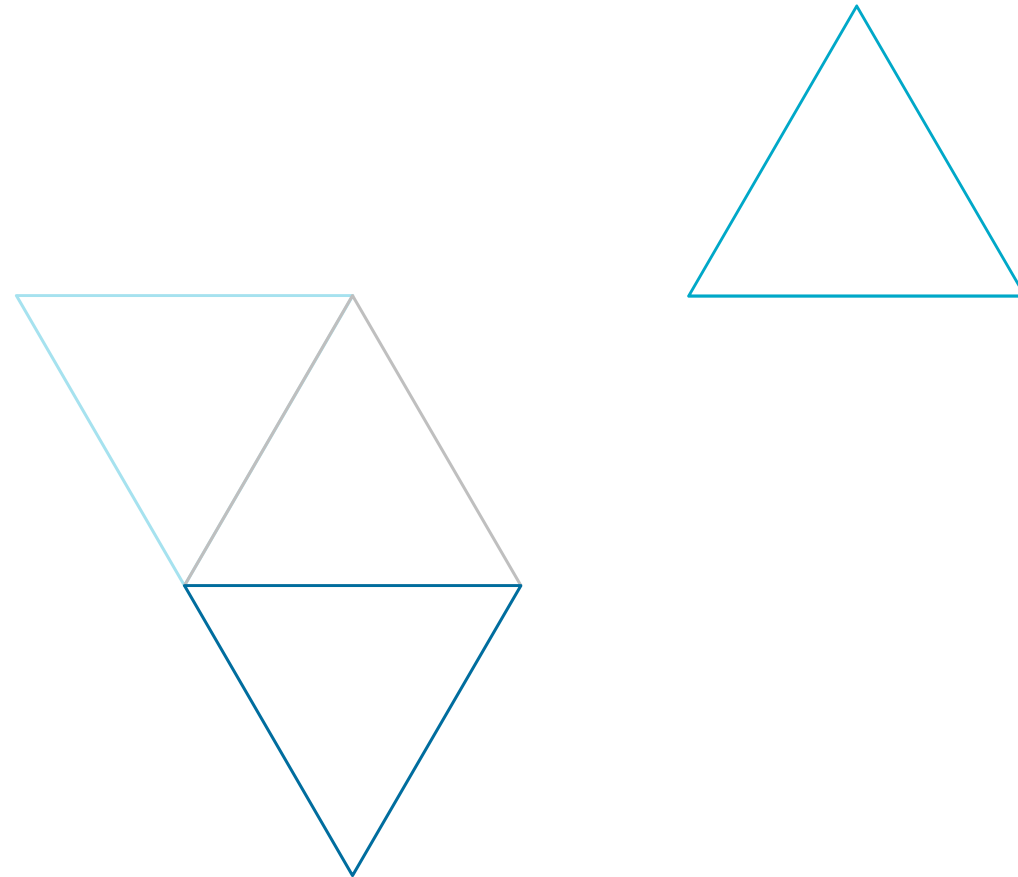
Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
Global Small Cap Equities	FTSE World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Infrastructure	S&P Global Infrastructure
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts All Stocks
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

APPENDIX 4

CHANGES IN YIELDS

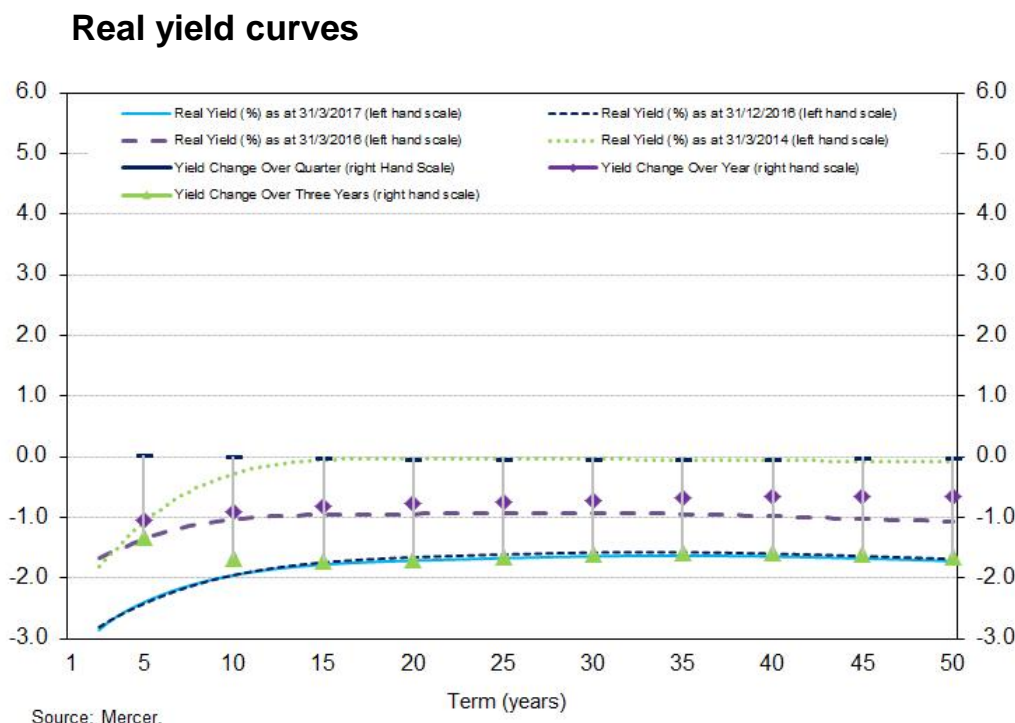
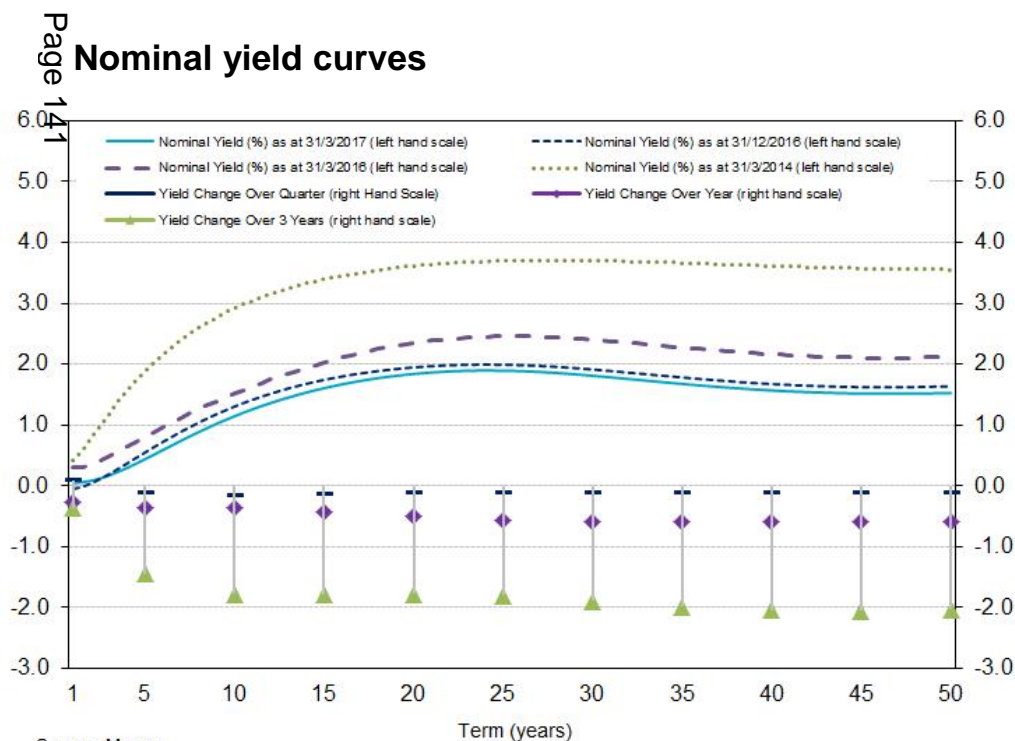
Page 140



CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 Mar 2017	31 Dec 2016	31 Mar 2016	31 Mar 2015
UK Equities	3.47	3.47	3.77	3.33
Over 15 Year Gilts	1.65	1.76	2.17	2.23
Over 5 Year Index-Linked Gilts	-1.71	-1.66	-0.97	-0.91
Sterling Non Gilts	2.20	2.29	2.90	2.65

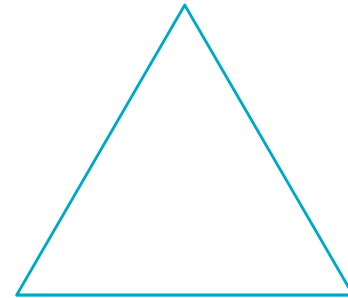
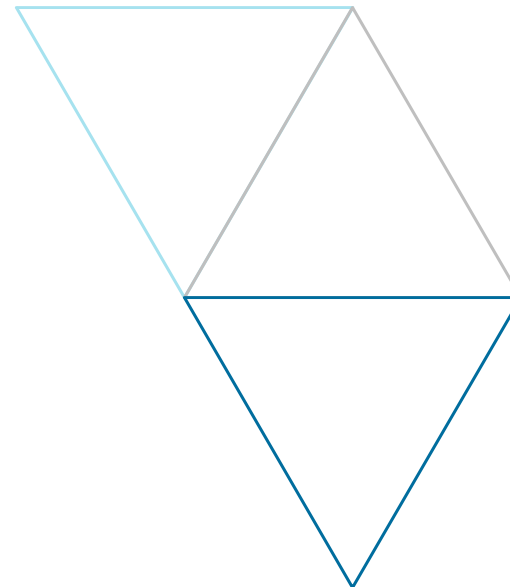
- UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned 6.6%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of 12.3% over the year. The yield for the FTSE Gilts All Stocks index fell over the year from 1.9% to 1.4%.
- The FTSE All Stocks Index Linked Gilts index returned 19.9% with the corresponding over 15 year index exhibiting a return of 26.1%.
- In a broad risk-on environment, credit spreads tightened over the year resulting in a total return of 9.3% for UK corporate bonds.



APPENDIX 5

HEDGE FUND INDICES

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HEDGE FUND INDICES

HFRI Diversified Fund of Fund Index

- The Diversified Fund of Fund Index is an equally-weighted index comprising fund of fund managers that satisfy the following criteria: Invest in a variety of strategies across multiple managers, exhibit standard deviation and returns correlation similar to the HFR Fund of Funds composite index.
- The trailing four months' performance figures are left as estimates and are subject to change; performance beyond four months is locked and not subject to change.
- If a fund liquidates or closes, that fund's performance will be included in the index as of the fund's last reported performance.
- There is no minimum asset size or minimum track record length requirement for inclusion in the index.
- Both domestic and offshore funds are included.

HFRX Global Hedge Fund Index

- The HFRX Global Hedge Fund Index is an “investible” index designed to be representative of the overall composition of the hedge fund universe (it is termed “investible” because investors are able to access all of the underlying funds and as such generate a return in line with the index).
- It is comprised of eight strategies: convertible arbitrage, merger arbitrage, equity hedge, equity market neutral, relative value arbitrage, event driven, distressed securities, and global macro.
- The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

Credit Suisse Hedge Fund Index

- The Credit Suisse Hedge Fund Index (formerly the Dow Jones Credit Suisse/Tremont Hedge Fund Index) is an asset weighted index of hedge funds.
- Funds in the Dow Jones Credit Suisse Hedge Fund universe must have a minimum of US \$10 million assets under management ("AUM"), a minimum one-year track record and current audited financial statements.

MAKE
TOMORROW,
TODAY



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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 904/17

Meeting / Decision: Avon Pension Fund Committee

Date: 23rd June 2017

Author: Matt Betts

Report Title: Investment performance and strategy monitoring (for periods ending 31st March 2017)

Exempt Appendix Title:

Appendix 3 - Changes in RAG status of Investment Managers

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption:

- 3. Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Report be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendix contains information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2017



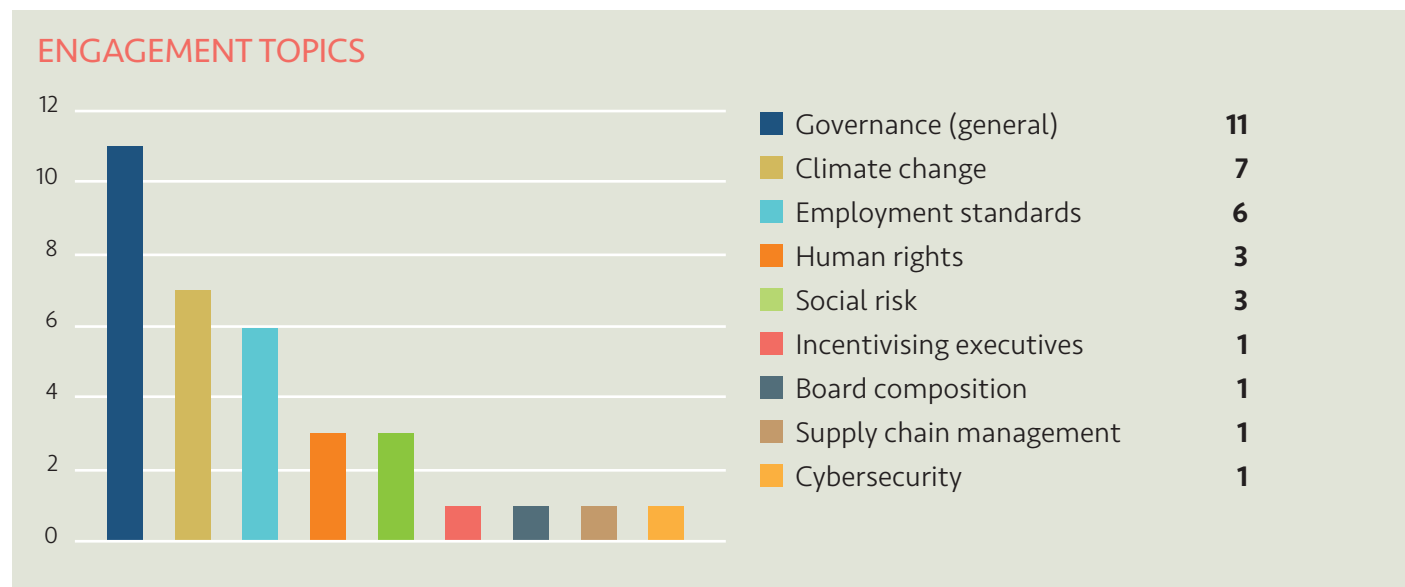
New year ushers in new Executive Committee and updated constitution

LAPFF responds to government green paper on corporate governance

Rio Tinto issues climate change report following engagement

LAPFF continues to engage Sports Direct on employment standards

Company Engagement



GOVERNANCE RISK

EXECUTIVE PAY AND RELIABLE ACCOUNTS

LAPFF response to government green paper on corporate governance

[LAPFF responded](#) to The Department for Business, Energy & Industrial Strategy's Green Paper on Corporate Governance Reform. The response focused on ensuring that executive pay is properly aligned to long-term performance and giving greater voice to employees and consumers in the boardroom.

Although the Forum is concerned that the current executive remuneration system is fundamentally broken and needs to be overhauled, for the purposes of the Green Paper, a number of suggestions were offered regarding the existing framework. Binding upper thresholds for total annual pay and mandatory disclosure of fund manager voting records were recommended, as were increased stakeholder engagement on executive remuneration, including employee representation on remuneration committees and incorporating employee views into pay policy. In respect of stakeholder engagement, LAPFF stated it would like to see more legal requirements to ensure that stakeholder voices of all types, not just those of employees and consumers, are considered in order to build business resilience to non-traditional financial factors.

The response re-iterated previously identified problems with the regulator of governance, accounts and financial reporting, the Financial Reporting Council (FRC). The submission noted the methods that the FRC had used to give the impression it had done nothing wrong and that it has denied any errors. The response questioned the governance of the FRC itself, including the way it is established, and called on Downing Street to "take an

active interest in the position of the FRC". In particular, LAPFF has suggested that serious consideration should be given to disbanding the FRC and establishing an independent Companies Commission.

LAPFF also wrote to the Chairman of the US Securities and Exchange Commission (**SEC**) to support the implementation of the Pay Ratio Rule. In the Forum's view, the primary value of the ratio is to indicate a company's approach to balancing internal and external competitiveness when setting CEO pay, and to ensure the wage gap within each company does not increase disproportionately, which could have adverse impacts on employee morale and productivity.

"the legislative requirements that the FRC is getting wrong are not even complex, the only things that are complex are the excuses that the FRC constructs to avoid dealing with its mistakes"

MERGERS AND ACQUISITIONS

Tesco merger with Booker

In a new briefing '[Tesco: asking the right questions of the proposed merger with Booker](#)', the Forum provided questions individual funds may wish to use to engage with the company. The proposed deal would see Tesco merge with Booker, food wholesaler and owner of Londis and Budgens convenience stores. The stock market appeared to applaud particular strategic aspects of the deal. These include developing the supply chain management capabilities and the premium paid for control of Booker which appear reasonable. However, there also appear to be a variety of risks that shareholders should be aware of, which include some governance concerns.

The Forum considers it a high risk transaction and encourages shareholders to gain assurance from Tesco's board that the risks that accompany the Booker merger have been acknowledged. For analysis of the deal, refer to the briefing on the member section of the LAPFF website.

"We... consider this to be a high risk transaction and encourage shareholders to gain assurance from Tesco's board"

HOLDINGS-BASED ENGAGEMENT

Earnings, infrastructure and Brexit raised at EasyJet AGM

CLlr Doug McMurdo attended the **easyJet** AGM and spoke to the Chair and Senior Independent Director. The day before LAPFF attended the easyJet AGM, its founder and 34% shareholder Sir Stelios Haji-Ioannou had stated his concerns to the *Daily Telegraph* about earnings. At the AGM one of his representatives raised concerns about the about the size of the fleet and the type of contracts used to manage its size. He had promised to vote against the Chairman on this point. However, at the time of the vote, he only used a token number of his shares to oppose the Chairman. It was also noted that, post-Brexit, the company headquarters would remain in Luton. The implication, though, was that a large operational element would be on the continent with the company having applied for an operation license in Europe. Congestion problems in British airspace were raised as a major problem for easyJet. The CEO spoke about infrastructure impediments, its impact on business and the need for greater investment.



ENVIRONMENTAL & CARBON RISK

LAPFF response to recommendations of the task force on climate-related financial disclosure

In responding to the Financial Stability Board's **Taskforce on Climate Disclosure** report, LAPFF supported its recommendations and considered all market participants should be encouraged to aim for full implementation. The

Forum further considers that guidance could go beyond promoting disclosure of scenario that reflects a 1.5 – 2 degree future, to recommending that companies should be positioning themselves for a low carbon future by disclosing a strategic business transition plan.

LAPFF's response further noted the lack of a recommendation to report on public policy positions and also requested a greater focus on reporting of the financing and development of the low-carbon investment opportunities. To ensure the rapid take up and promotion of consistent standards, the Forum encouraged the Taskforce to work with national stock exchanges, financial regulators and the International Organization of Securities Commissions.



Jan du Plessis

©The Australian

Strategic resilience

At a follow-up meeting with Jan du Plessis, the chair of **Rio Tinto**, Rodney Barton of the LAPFF executive joined other investors in the small coalition that has been meeting with the company since 2013, to improve its response to the anticipated low-carbon transition. It was made clear that all elements of the strategic resilience shareholder resolution, co-filed by LAPFF member funds, at the 2016 AGM, would not be able to be addressed in one year. So for example there is still much to be done in the areas of linking low carbon strategy with remuneration and on future low carbon scenarios. However, the company appears to be addressing each element of the resolution, for example through running internal workshops on undertaking scenario planning.

In March, Rio issued a climate change report in conjunction with its sustainable development report, in response to the resolution request. A follow-on meeting was held with Mathew Bateson, Head of Environment & Legacy Management who also led a webinar which included Vivek Tulpule, Head of Economics & Markets. At this, it was indicated that the issues which the company still need to consider further are quantitative reporting and combining reporting with the financial reporting of the company.

In a [press-statement](#), LAPFF welcomed the news that **Shell** was divesting most of its oil sands interests in Canada and at a collaborative meeting with Chad Holliday,

the Shell chairman, asked how the company could better illustrate how action to mitigate exposure to carbon risk is integrated into Shell's business model and strategic planning.

In a collaborative call with the chair of the **BP** remuneration committee, Professor Ann Dowling, gave an update on the proposed new pay arrangements at the company and how these linked into company strategic action on climate. Part of the performance indicators for the long term incentive plan now include a reflection of strategic priorities to support a lower carbon future with the focus on 'value over volume'. In doing so, the use of the 'reserves replacement ratio' criticised in the past, has been removed as a metric for remuneration.

SOCIAL RISK DIVERSITY

Lack of gender diversity on the board of FTSE 350 company

Over the past 18 months LAPFF has been communicating with **Euromoney**, which, following a board restructure, now has no women on the board. In the 2016 Annual Report the lack of women on the board is described as 'temporary', although the company states its support for the principles of the Davies Report and that as part of a board review 'the diversity position will be reviewed in light of best practice.' In the run-up to the January AGM, LAPFF contacted Euromoney to inform them that a voting alert would be issued as all those proposed to be elected to the board at the AGM were male. This did elicit a response describing the changes the company had gone through. However, given the amount of time that had passed and that no female directors were proposed to be elected to the board, LAPFF remained concerned that the board was not giving this issue adequate consideration and treating it with sufficient urgency. A [voting alert](#) was therefore issued to oppose the re-election of John Botts, chairman of the nominations committee.

LAPFF's response to the Parker review of ethnic diversity

[LAPFF responded](#) to the government-backed Parker Review on Ethnic Diversity of UK Boards' consultation report '[Beyond One by 21](#)'. The interim report highlighted the lack of ethnic diversity and makes several recommendations, including setting a target that each FTSE 100 Board should have at least one director of colour by 2021, FTSE companies should develop candidates for the pipeline and companies should enhance transparency and disclosure. The Forum's response set out the Forum's position on diversity, how it engages on such issues and recommended that the final report could be strengthened by stressing the role that investors can and should play.

HUMAN CAPITAL AND EMPLOYMENT

Continuing engagement with Sports Direct over employment standards

LAPFF continues to engage with **Sports Direct**. At the end of last year the Senior Independent Adviser of Sports Direct failed to attend a meeting with Cllr Kieran Quinn, LAPFF chair. Separately, the Forum issued a voting alert to oppose the re-election of Sports Direct Chairman, Keith Hellawell, at the 5 January 2017 EGM to address continuing concerns about the Company's governance and business practices. So at the start of January LAPFF was in touch with Sports Direct regarding the previously arranged meeting in December for which no apology was forthcoming from the Senior Independent Director. Communications stressed concerns that Keith Hellawell was re-appointed as chairman at the EGM despite overwhelming opposition from independent shareholders. They also highlighted the falling holdings in Sport Direct of LAPFF members and concerns by some members that the drop in the company's financial performance was being driven by governance and workplace concerns. LAPFF was told that engagement with Cllr Quinn would be discussed at a February 2017 board meeting. The Forum has since followed up to enquire about the results of that discussion but has received no response from any Sports Direct representative.

RELIABLE ACCOUNTING RISK

Reliable accounts and banking regulation in a changing environment

The Forum met with **HSBC** to discuss the company's sparse human capital management reporting and financial regulation, including reports from the US suggesting that financial regulations implemented after the financial crisis to protect economies from further crises are likely to be rolled back. There were two meetings, the first on human capital management with Pierre Goad, Group Head of Employee Insight and Communications, and the second on financial regulation with Chairman, Douglas Flint. Mr Flint is set to step down as Chair later this year. He will be replaced by Mark Tucker, who will leave the Goldman Sachs board to fill this role.



MEDIA COVERAGE

Accounting Standards

[LAPFF moves against EC with IFRS 9 'maladministration' claim](#) – IPE, 12 January 2017

[Accounting roundup: More illegal dividends unearthed](#) – IPE, 15 February 2017

[Clearer picture of banks' capital is required to help avert crises](#) – Financial Times, 12 January 2017

LAPFF Response to the Corporate Governance Green Paper

[Shareholders demand right to limit executive pay](#) – Financial Times, 24 February 2017

[LAPFF hits out at UK's Financial Reporting Council](#) – IPE, 27 February 2017

[Weekly highlights – Financial Services](#) – LexisNexis, 2 March 2017



Climate risk

[Global asset owners, managers launch initiative to track shift to low-carbon economy](#) – Pensions & Investments, 11 January 2017

LGPS

[MPs urged to examine sector's finances](#) – Municipal Journal, 28 February 2017

[MPs urged to examine local government pension scheme](#) – LocalGov, 2 March 2017

NETWORKS AND EVENTS

The following lists some of the events and meetings attended by LAPFF representatives during the quarter:

Corporate Human Rights Benchark (CHRB) launch - The CHRB is a collaborative effort of Aviva Investors, the Business and Human Rights Resource Centre, Calvert Research and Management, the EIRIS Foundation, and Institute for Human Rights and Business and VBDO to rank major multinationals on their human rights efforts.

ShareAction Workforce Disclosure Initiative event - ShareAction is developing a rating tool for human capital management aimed at allowing investors to prioritise companies for engagement on human capital and to identify sub-issues for engagement.

UNGC beneficial ownership - Discussing the importance of beneficial ownership transparency for responsible business practices and the ability of investors to assess business risk. The discussion followed the launch of beneficial ownership global website to build on national efforts.

PRI Global RI Regulation - PRI guide launch on responsible investment regulation globally and its impact.

2016 India Spotlight Index - The Access to Nutrition Foundation (ATNF) has launched the India Spotlight Index, which assesses the policies, practices and disclosure of the largest multinational Indian food and beverage manufacturers.

ClientEarth Climate Change and the Law Seminar - This event explored how to use the existing legal framework to better encourage companies to report both on their climate change impacts and on how they will be affected by climate change.

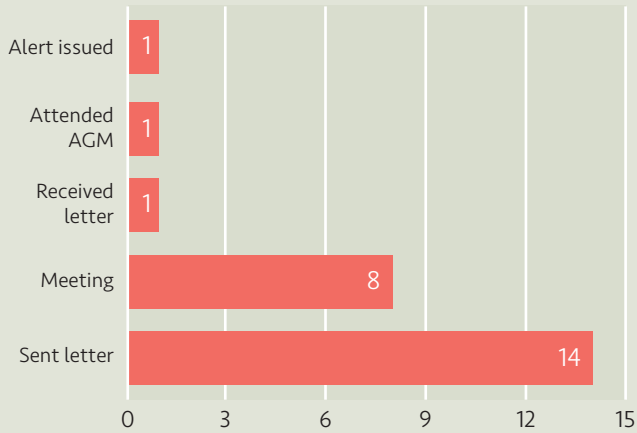
COMPANY PROGRESS REPORT

15 companies engaged over the quarter

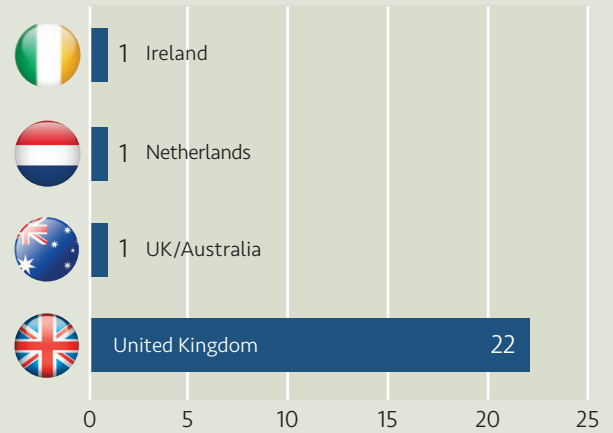
Q1 2017 ENGAGEMENT DATA				
	Company	Topics	Activity	Outcome
1	Aberdeen Asset Management plc	Sent Letter	Social Risk	Governance (General)/ Awaiting Response
2	Anglo American plc	Meeting	Climate Change/ Human Rights	Change in Process
3	AstraZeneca plc	Sent Letter	Governance (General)	Dialogue
4	BP plc	Sent Letter/Meeting	Climate Change/ Remuneration	Substantial Improvement
5	British American Tobacco plc	Sent Letter	Social Risk	Dialogue
6	Easyjet plc	Sent Letter/ Attended AGM	Other/Governance (General)	Dialogue
7	Euromoney Institutional Investor plc	Alert Issued	Board Composition	No Improvement
8	HSBC Holdings plc	Sent Letter/Meetings	Employment Standards/ Finance and Accounting	Change in Process/ Dialogue
9	Lloyds Banking Group plc	Sent Letter	Finance and Accounting	Dialogue
10	Rio Tinto Group	Meetings	Climate Change	Substantial Improvement
11	Royal Dutch Shell plc	Meeting	Climate Change	Dialogue
12	Shire plc	Sent Letter	Governance (General)	Dialogue
13	Sports Direct International plc	Sent Letters/ Received Letter	Employment Standards/ Governance (General)	Awaiting Response/ No Improvement
14	Standard Life plc	Sent Letter	Governance (General)/ Social Risk	Awaiting Response
15	Vodafone Group plc	Sent Letter	Governance (General)	Dialogue

COMPANY ENGAGEMENT ACTIVITIES

Company engagement topics



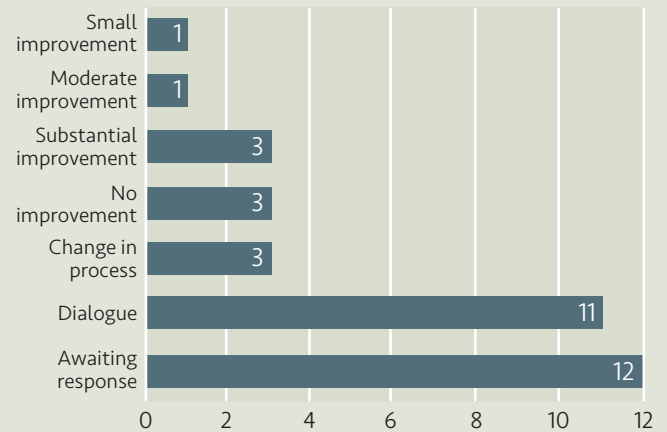
Domicile



Position engaged



Outcomes



LAPFF DEVELOPMENTS

At the LAPFF AGM, it was announced that Cllr Kieran Quinn had been re-elected as LAPFF Chair and Cllr Denise Le Gal and Cllr Ian Greenwood were elected as Deputy Chairs of the LAPFF executive.

Joining them on the executive is new committee member Cllr Alasdair Rankin (Lothian Pension Fund). Two members of the executive, former LAPFF Deputy Chair, Cllr Cameron Rose, and Cllr Richard Greening have stepped down after distinguished tenures on the executive, and at the executive meeting in January LAPFF chair, Kieran Quinn, extended his thanks for all their work and support over the years.

At the LAPFF AGM it was announced the revised LAPFF Constitution had been overwhelmingly approved (by 85% of those who responded). Kieran Quinn stated "The Forum now has a robust and modern constitution, enshrining the rights of our members and the role and obligations of our Executive and membership, through our own transparent governance process. It is now 'fit for purpose'." The new Constitution can be viewed on the member section of the LAPFF website.

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham (London Borough of)
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden (London Borough of)
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon (London Borough of)
- Cumbria Pension Scheme
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Durham County Council Pension Fund
- Dyfed Pension Fund
- Ealing (London Borough of)
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield (London Borough of)
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney (London Borough of)
- Haringey (London Borough of)
- Harrow (London Borough of)
- Hertfordshire County Council Pension Fund
- Hounslow (London Borough of)
- Islington (London Borough of)
- Lambeth (London Borough of)
- Lancashire County Pension Fund
- Lewisham (London Borough of)
- Lincolnshire County Council
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham (London Borough of)
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire County Council Pension Fund
- Northamptonshire County Council
- NILGOSC
- Northumberland County Council
- Nottinghamshire County Council
- Powys County Council Pension Fund
- Redbridge (London Borough of)
- Rhondda Cynon Taf
- Sheffield City Region Combined Authority
- Shropshire Council
- Somerset County Council
- South Yorkshire Pensions Authority
- Southwark (London Borough of)
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey County Council
- Sutton (London Borough of)
- Teesside Pension Fund
- The City and County of Swansea Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets (London Borough of)
- Tyne and Wear Pension Fund
- Waltham Forest (London Borough of)
- Wandsworth (London Borough of)
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 992/17

Meeting / Decision: Avon Pension Fund Committee

Date: 23rd June 2017

Author: Liz Woodyard

Exempt Report Title: LGPS Pooling of Investments

Exempt Appendix Title:

Exempt Appendix 1 – Governance Overview

Exempt Appendix 2 – Special Reserved Matters and Reserved Matters

Exempt Appendix 3 – BPP Ltd. Business Plan

Exempt Appendix 4 - ToR Oversight Board

Exempt Appendix 5 – ToR Client Group

Exempt Appendix 6 – Brunel Risk Dashboard

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption:

3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Report be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

Weighed against this is the fact that the exempt report and appendices contain strategic and financial information about the proposal, which is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Bath & North East Somerset Council			
MEETING:	AVON PENSION FUND COMMITTEE		
MEETING DATE:	23 rd June 2017	AGENDA ITEM NUMBER	13
TITLE:	Internal Audit Update		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 Summary of Pension Fund Internal Audit Work			
Appendix 1a...Audit Follow-Up Review			
Appendix 2 Internal Audit Report on Pension Governance			
Appendix 3 Internal Audit Report on Pension Administration			

1 THE ISSUE

- 1.1 The purpose of this report an update on Internal Audit activity.
- 1.2 The report and its appendices are important for the Pension Fund Committee to consider in the context of their understanding of the performance and management of the fund.

2 RECOMMENDATION

That the Pension Committee

- 2.1 Notes the report and outcomes from Internal Audit work and the proposed areas to be included in the Bath & North East Somerset Council Audit Plan for 2017/18.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct implications related to the Pensions Committee in connection with this report.

4 REPORT

2016/17 Internal Audit Work

- 4.1 Internal Audit reviews the fund as part of their overall plan across all activities within the Council and there is no specific audit plan for the Pension Fund as only 30 days review work takes place.
- 4.2 However risks connected to the Pension Fund are considered separately as part of the planning process and this results in normally one or two audit reviews occurring each year depending on the scope of works.

- 4.3 A summary of work undertaken in the last four years is attached at Appendix 1 and Appendices 2 & 3 include the final audit reports for the work carried out in 2016/17.
- 4.4 A summary of further recommended follow-up work identified and resultant actions undertaken is attached at Appendix 1a.
- 4.5 In respect of the two areas reviewed in 2016/17 - Pensions Administration & Pensions Governance - the audit opinions are positive and there are no significant risk areas to be brought to the committee's attention.
- 4.6 Looking forward the audit plan for the Pension Fund now also takes account of the Pension Board requirements and this will result in additional audit time from the 2017/18 year onwards to carry out work on behalf of the board.
- 4.7 The following areas have been flagged up for inclusion in the 2017/18 plan connected to the Pension Fund and Pension Board.
- a) **Pensions Investments** – This area is due for review however due to the current plans for Project Brunel and future management of Pensions Investments it would be prudent to set aside this audit and focus time specifically to support Project Brunel and ensure appropriate assurances are in place with regard to the proposals being made and risks to the Council.
 - b) **Pensions Administration** – System Calculations – Focus on assurance of a range of calculations to ensure integrity of data
 - c) **Pensions Administration** – Employer Contributions – Focus on reviewing monthly and annual data submissions and ensuring integrity of data
 - d) **Pensions Governance (COP 14)** - This area has been reviewed in full over the last 2 years however it is felt important to carry out an annual high level review to ensure compliance and standards are maintained on behalf of the Pension Board as it is a key requirement of the Board's terms of reference.
 - e) **Pensions Payroll** - This area is due for review based on our long term plan but is currently assessed as lower risk than the other proposed audit areas detailed above.

5 RISK MANAGEMENT

- 5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance and there are no significant or material risks to report.

6 EQUALITIES

- 6.1 A proportionate equalities impact assessment has been undertaken and there are no significant issues to report.

7 CONSULTATION

- 7.1 Report and Issues have been subject to consultation with the S151 Officer and Strategic Director of Resources.

Contact person	Jeff Wring, Head of Audit West 01225 477323 [Geoff Cleak – Pensions Manager 01225 395277]
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Background papers	
Please contact the report author if you need to access this report in an alternative format	

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APPENDIX 1 - Internal Audit Reviews – 12/13 – 16/17

Internal Audit Work 2012/13 to 2016/17

Year	Heading (Date of Final Report)	Scope	Assurance Level	No of Recommendations	
				Reported	Implemented at Follow-Up
2012/13	Pensions Administration	Review of the framework of internal controls in relation to the Administration processes, including ensuring that: <ul style="list-style-type: none"> • Control arrangements are in place to certify that all benefits calculations are carried out timely and accurately. • Employer contributions are received in full, recorded timely and accurately. • Member information held within Altair is accurate and maintained in a timely manner. 	'4' Good	7	6 (*1)
2013/14	Pensions Investments	Limited review concentrated on supporting the Investment Manager in reviewing the adherence of the fund to the Myners Principles, reviewing the structure of independent advice and providing guidance on the use of electronic transaction processes with the Global Custodian Bank.	'5' Excellent	3	1 (*2) (*3)
	Pensions Payroll	This audit review took place to give assurance that: <ol style="list-style-type: none"> 1) Pension Payments are only made to eligible recipients. 2) Monthly and lump sum pension payments are made accurately and promptly. 3) Pension payments are accurately recorded on the pension system and reconciled monthly with the Financial Management System. 	'4' Good	3	3

		<p>4) Information and payments sent to external organisations, including government departments and agencies in an accurate and timely manner.</p> <p>5) Management reporting (which is relevant, sufficient, accurate and timely) is produced and issued to the appropriate level (includes exception/error reporting).</p>			
2014/15	Pensions Administration (i-Connect)	<p>This audit review took place to give assurance that:</p> <p>1) the files received from employers are managed and uploaded in a controlled way;</p> <p>2) corrections are tracked through a proper decision process and audit trail;</p> <p>3) error log management is properly controlled.</p>	'4' Good	1	1
2015/16	Pensions Administration (Contributions & Member Records)	<p>This audit review took place to give assurance that:</p> <p>1) Members information is held in compliance with Data Protection and is provided to relevant parties to fulfil member and regulation requirements.</p> <p>2) Employer (employer and employee) contributions are accurate and received in full by specified timescales.</p> <p>3) The Pension Fund provides accurate and timely information to assist employers in fulfilling their Pension Fund obligations.</p> <p>4) A governance framework and processes are in place to manage/scrutinise Pension Fund administration.</p> <p>5) Employers provide accurate member and contribution information by specified timescales.</p>	'4' Good	5	Being Followed-up Q4 16/17
2015/16	Pensions IT Controls - IT Systems (Altair & I-Connect)	<p>This audit review to give assurance that:</p> <p>1) Access to the system is restricted.</p> <p>2) The integrity of the data within the system is safeguarded.</p> <p>3) System availability is maintained by robust Business Continuity and IT Disaster Recover arrangements.</p>	'4' Good	4	Being Followed-Up Q4 16/17

2016/17	Pensions Administration (Benefits & Lump Sum Payments)	<p>This audit review took place to give assurance that:</p> <p>1) Member and beneficiary benefit and lump sum entitlements are accurately calculated.</p> <p>2) All transactions are recorded in accordance with The Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014.</p> <p>3) Benefits and lump sums are processed and paid in accordance with the schemes timescales.</p>	'5' Excellent	1	To be followed up in 17/18
2016/17	Pensions Governance	<p>This audit review took place to give assurance that:</p> <p>1) The Pension Board has the right balance of skills, experience and representation.</p> <p>2) Information about the Pension Board is accessible and up-to-date.</p> <p>3) The risks and control framework are assessed, recorded and regularly revised.</p> <p>4) Internal dispute resolution procedures and processes operate effectively and timely.</p> <p>5) Whistleblowing (report of breach of law) procedures and processes operate effectively and timely.</p> <p>6) Pension Board Members are conversant with Pension Scheme legislation and standards.</p> <p>7) Pension Board Members do not have a conflict of interest, or are aware of the need to declare a potential conflict of interest.</p>	'4' Good	2	To be followed up in 17/18

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Internal Audit Service

Client / Service	Business Support
Report Name	Pensions Investments
Date Final Report Issued	July 2013

ACTION PLAN (AUDIT FOLLOW-UP REVIEW)

Rec No.	Report Recommendation	Responsible Officer and Implementation Date	Comments on Implementation	Implementation Status
L1	The Avon Pension Fund should adopt the guidance notes, attached as Appendix A to this report, for use as and when the new electronic money transfer system is introduced. The guidance notes should be disseminated to all staff involved in its use and appropriate training given.	31/07/14	Management Update The new electronic system has not been introduced as it does not allow foreign currency transactions. Most of our money transfers through the custodian are in foreign currencies. The custodian platform should permit this soon at which time the guidance notes will be disseminated and training given. 11/8/14	Implemented in 2016
L2	The Investment Manager must ensure that all relevant decisions relating to the Avon Pension Fund regarding the awarding of contracts are recorded on the Council's Decision Making Register under the name of the appropriate Officer. This should include any not currently recorded including the awarding of the Global Custody Contract in March 2012.	15/07/13	Management Update Already implemented at the issue of the Final Report.	Implemented

Internal Audit Service

Client / Service	Business Support
Report Name	Pensions Investments
Date Final Report Issued	July 2013

ACTION PLAN (AUDIT FOLLOW-UP REVIEW)

Rec No.	Report Recommendation	Responsible Officer and Implementation Date	Comments on Implementation	Implementation Status
L3	The Avon Pension Fund should consider the requirement to continue with 3 sources of independent advice for reasons of value for money and potential conflict of advice.	31/07/14	Management Update The Public Service Pensions Act 2013 requires LGPS funds to establish a Pension Board to scrutinise the administering authority. Given this change in the governance arrangements, the review of the Independent Investment Advisor has been postponed in order to consider the implications of the new arrangements. 11/8/14	Implemented 2017

Client / Service	Avon Pension Fund
Report Name	Pension Administration (Contributions/Members Records)
Date Final Report Issued	March 2016

Rec No.	Report Recommendation	Responsible Officer and Implementation Date	Comments on Implementation	Implementation Status
M1	<p>The Acting Pensions Benefits Manager should implement a process of independent monitoring (quality checking) of data input to the Altair System to ensure the quality of information held on the system.</p> <p>The level and timing of the checking should be appropriate to the experience of the processing officer and any problems identified.</p> <p>The checks should be undertaken by an independent officer and details of all cases reviewed should be recorded on a checking log/spreadsheet.</p>	<p>Pension Benefits Manager August 2016</p>	<p>Management Update Adding a checking stage to all starter and amendment tasks was considered but felt too onerous and would increase the workloads to an unmanageable level.</p> <p>The current process is still to check the work of new staff until competent although there have been no new staff within the period. We are just about to recruit for the Assistant Pension Officer position; we will ensure a checking log is set up to record the cases checked.</p> <p>Implementation April 2017 (on recruitment of new member of staff) Within the restructure of the APF the responsibility for the starters and amendments is now with the Member Services Team. We have also set up a Quality Assurance Team whose responsibility will be to spot check a selection of cases across all Member services work including starters and amendments.</p> <p>Implementation June 2017 As part of the restructure we have set up an Employer Services Team. A more formal spot checking process for starters and amendments set up by employers via ESS is planned by the end of the year.</p> <p>We are continuing to test all our data in accordance with The Pension Regulator's requirements, investigating and resolving error and queries identified on a monthly basis.</p> <p>Audit Review Comments noted.</p>	Partially implemented

Client / Service	Avon Pension Fund
Report Name	Pension Administration (Contributions/Members Records)
Date Final Report Issued	March 2016

Rec No.	Report Recommendation	Responsible Officer and Implementation Date	Comments on Implementation	Implementation Status
M2	<p>The Acting Pensions Benefits Manager should ensure that all forms and information containing employee information received from employers has a declaration requiring a signature similar to the one already present on the LGPS51 form, the declaration should include:</p> <ul style="list-style-type: none"> • Assurance that all information and figures supplied have been independently checked and verified by the employer • Assurance that to the best of their knowledge the information and figures supplied are correct • Sign off by an employer authorised signatory. <p>This will at least give the APF some assurance as to the validity and accuracy of the information supplied by employers, and in cases where there may be challenge to the information used the APF will have at least a declaration from employers to show that data used is verified.</p>	<p>Pensions Benefits Manager April 2016</p>	<p>Management Update</p> <p>This recommendation was implemented from the Year End exercise last year (ending 31 March 2016). When the year end information is requested from employers we also request a declaration, which we monitor receipt of and record on our Year End control spreadsheet. The process will be repeated annually</p> <p>Audit Review</p> <p>Comments noted</p>	Implemented

Client / Service	Avon Pension Fund
Report Name	Pension Administration (Contributions/Members Records)
Date Final Report Issued	March 2016

Rec No.	Report Recommendation	Responsible Officer and Implementation Date	Comments on Implementation	Implementation Status
M3	The Finance & Systems Manager (Pensions) should ensure that there is an audit trail to show that independent quality checks of the reconciliations have been carried out. This may involve a signature or "stamp" against the reconciliation to show it has happened.	Finance Systems Manager (Pensions) April 2016	<p>Management Update</p> <p>A system has been implemented to quality check the reconciliations, however further work needs to be undertaken to make this more extensive. In addition a more consistent approach to final (signature/"stamp") 'sign off' needs to be agreed.</p> <p>Audit Review</p> <p>Comments noted</p>	Partially implemented Revised implementation date 1 st March 2017
M4	The Acting Pensions Benefits Manager should ensure that all attendees of training are logged in a spreadsheet, used for reference if a request comes in for access to ensure they have undergone the appropriate training beforehand.	Pensions Benefits Manager August 2016	<p>Management Update</p> <p>A training log for employers has been set up to record the training undertaken by employer organisations and at individual level. Further improvements are currently being undertaken to tighten controls around authorised signatories and ESS users.</p> <p>Audit Review</p> <p>Comments noted</p>	Implemented



Client / Service	Avon Pension Fund
Report Name	Pension Administration (Contributions/Members Records)
Date Final Report Issued	March 2016

Rec No.	Report Recommendation	Responsible Officer and Implementation Date	Comments on Implementation	Implementation Status
M5	<p>The Acting Pensions Benefit Manager should continue to put emphasis on employer engagement so that there are more employers signed up to ESS and also to improve the quality of data they send in.</p> <p>It has been agreed to help achieve this there will be a change to the role of one person in the Data Quality Team to concentrate just on employer engagement and training.</p> <p>The role is starting on 18 January and they will be putting together a plan shortly of what they will be focusing on.</p>	<p>Pensions Benefits Manager August 2016</p>	<p>Management Update</p> <p>One Employer Relationship Officer was appointed in Jan 2016 to roll out further employer training in the following areas:</p> <ul style="list-style-type: none"> - Employer Responsibilities - ESS Training - Year End Training - Leaver Form Training - On site visits <p>All training sessions are aimed at employers to assist them in their responsibilities and improve the overall quality of data.</p> <p>From January 2017 the Employer Services Team will have a Data Control Team and Employer Relations Team. All training and support to employers will be reviewed during the year and improvements implemented including moving more employers to submitting data electronically.</p> <p>We are currently in talks with our software provider Heywood to look at new developments in electronic data Implementation by 31 March 2017</p> <p>Audit Review Comments noted</p>	Implemented

**Final Internal Audit Report
Confidential**

Pensions Governance

February 2017

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5	The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary
Level 4	The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
Level 3	The systems of internal control are satisfactory and reasonable assurance can be provided. However there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan
Level 2	The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
Level 1	The systems of internal controls are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee

Assurance Summary:

Assessment	Key Control Objectives
Excellent	Ensure that the Pension Board has the right balance of skills, experience and representation.
Excellent	Ensure that information about the Pension Board is accessible and up-to-date.
Excellent	Ensure that risks and the control framework are assessed, recorded and regularly revised.
Excellent	Ensure that internal dispute resolution procedures and processes operate effectively and timely.
Excellent	Ensure that whistleblowing (report of breach of law) procedures and processes operate effectively and timely.
Good	Ensure that Pension Board Members are conversant with Pension Scheme legislation and standards.
Good	Ensure that Pension Board Members do not have a conflict of interest, or are aware of the need to declare a potential conflict of interest.

Detailed Report

Opinion:

Internal Audit has undertaken a review of the risks and controls related to Pensions Governance and assessed the framework of internal control at Level 4. A total of 2 audit recommendations are detailed in the Action Plan.

Scope and Objectives:

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

Context & Audit Comment:

The Avon Pension Fund Pension Board has been set up to assist in the good governance of the scheme through the monitoring of Fund performance and adherence to statutory duties. The Local Pension Board is not a decision-making body - its role is to assist in the compliance with scheme rules.

The Local Pension Board consists of three employer and three member representatives and an Independent Chairman. Having an Independent Chairman is a requirement for all responsible Local Government Pension Schemes.

During discussions with Board Members they confirmed their understanding of the legislative requirement to maintain a Pension Board and its role is to assist the Council (as the administering authority of the Avon Pension Fund), to secure compliance with:

- the Local Government Pension Scheme (LGPS) regulations
- any other legislation relating to the governance and administration of the scheme
- requirements imposed by the Pensions Regulator in relation to the scheme

They also recognised that the Pension Board's role is to ensure the effective and efficient governance and administration of the scheme but they all questioned the role of the Pension Board and whether it was required, i.e. added to the governance of the Pension Fund. Members also suggested that the Pension Committee and the Pension Board could work more closely to introduce greater efficiency with the administration of the Pension Fund by joining up on statutory governance policy discussions that the Pension Committee has delegated authority to approve.

This audit focussed on compliance with components of 'The Pension Regulator - Code of Practice no.14 - Governance and Administration of public service pension schemes', and follows on from the 2015/16 Internal Audit review of 'Pension Administration (Contributions / Member Records)'.

We identified the following strengths:

- Members of the Pension Board are fully aware of their responsibilities regarding the acquisition and maintenance of knowledge in relation to the Pension Scheme.
- Discussions with a sample of Members identified that Members are of the opinion that they: 1) fulfil their formal role and responsibilities as recorded in the Board Terms of Reference; 2) were adequately supported by Officers and the Chair; and, 3) are adequately skilled/trained to undertake the role and are confident with the level of knowledge to carry out their duties.

Final Internal Audit Report – Pensions Governance

- Each Member completes an annual self-assessment to identify their training needs, which is then formulated into a training plan and approved by the Board.
- Pension Board Members possess a good, broad mix of business and pensions skills and experience, which assists in ensuring a well governed scheme.
- Information relating to the Avon Pension Fund, e.g. Scheme regulations and Scheme Admin strategy is up-to-date and accessible to its members.
- The scheme's risk assessment methodology and system has recently been redesigned to report on the top 10 risks, and these risks are routinely reported to the Board to enable Members to monitor risks. The Risk Register records the risk assessment for each risk for the current quarter (and 3 previous quarters if relevant).
- An Internal Dispute Resolutions Policy (IDRP) has been formally approved detailing the procedure for dealing with disagreements.
- A breaches procedure has been formally approved detailing the scheme's legal duty to report employer breaches of Pension Fund regulations.

We identified the following weaknesses:

- Incomplete training for Board Members.
- BANES employee Board Members have not been required to complete a declaration of interest form.

Audit & Risk Personnel:

Lead Auditor: Sue Bressington

Acknowledgements:

Sincere thanks to Geoff Cleak, Jeff Wring, Gaynor Fisher, Steve Harman, Mark King, Sean O'Neill, Chris Salmon and all service staff for their help and assistance provided throughout the Audit review.

ACTION PLAN

HIGH RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
H1	<p><u>Incomplete training for Board Members.</u></p> <p>A review of the most recent training logs completed by Pension Board Members, confirmed that only 4 of the 6 Members plus the Chairman have fully completed the recommended training.</p> <p>The training still to be undertaken by 2 Members of the Board included:</p> <ul style="list-style-type: none"> • TPR Code of Practice No.14 • TPR's Public Sector Online Toolkit (7 modules) 	<p>Members may not be fully aware/understand the legislative requirements regarding governance arrangements for the Pension Fund.</p> <p>TPR Code of Practice No.14 (34-36) sets out the legal requirements for the knowledge and understanding required by pension board members; this may not be complied with if training is not fully completed.</p>	<p>The Chair of the Pension Board/Head of Audit West should formally request that all Members of the Board complete any outstanding training to ensure that they are fully trained and equipped to fulfil their pension fund governance role.</p>	<p>To be agreed at Pension Board meeting February 2017.</p>

HIGH RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
H2	<p><u>BANES employee Board Members not requested to complete a declaration of interest form.</u></p> <p>BANES employee Pensions Board Member Steve Harman has not been required to complete a declaration of interest form, despite being bound by The Code of Conduct for Members and Co-Opted Members and The Rules for Registration of Interests and Conflicts of Interest.</p>	<p>Non-compliance with the Board's own Terms of Reference.</p> <p>Potential conflict of interest may not be declared.</p>	<p>A formal request to complete a Declaration of Interest should be sent to the following Member(s) of the Pension Board:</p> <ul style="list-style-type: none"> - Steve Harman <p>The Head of Audit West should periodically verify that signed declarations are held for each Member of the Board whether interests are declared or nil returns are completed.</p>	<p>The declaration of interest for Steve Harman has now been completed (January 2017) and registered on the Committee Details (Pension Board) which is accessible through the 'Your Council & Democracy' webpages available through the Council's website.</p> <p>Already implemented.</p>

**Final Internal Audit Report
Confidential**

**Pensions Administration
(Benefits & Lump Sum Payments)**

February 2017

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5	The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary
Level 4	The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
Level 3	The systems of internal control are satisfactory and reasonable assurance can be provided. However there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan
Level 2	The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
Level 1	The systems of internal controls are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee

Assurance Summary:

Assessment	Key Control Objectives
Excellent	Ensure that Member and beneficiary benefit and lump sum entitlements are accurately calculated.
Excellent	Ensure that all transactions are recorded in accordance with The Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014.
Good	Ensure that benefits and lump sums are processed and paid in accordance with the schemes timescales.

Detailed Report

Opinion:

Internal Audit has undertaken a review of the risks and controls related to Pensions Admin and assessed the framework of internal control at Level 5. A total of 1 audit recommendation is detailed in the Action Plan.

Scope and Objectives:

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

Context & Audit Comment:

The Avon Pension Fund is administered on behalf of its employer members by Bath and North East Somerset Council. The Pension Administration team focuses on providing:

- pension calculations for members
- timely payment of benefits to its members
- accurate information about the pension fund
- support and training to employer organisations in the scheme

Employee contributions and the employee pension payable by the LGPS are different. Often people think that their contributions equal their pension - but employee payments are just "a contribution" towards the cost of the pension scheme.

Employee pension benefits are worked out using a defined formula. This formula is used to work out every year what an employee's pension will be when they retire. Their contributions are a percentage of their pay, which are deducted from their salary every month and paid to the Avon Pension Fund, along with a contribution from their employer.

As stated these contributions go into the Avon Pension Fund, from which the pensions are paid to those drawing their pension. Contributions pay for the cost of the scheme (including paying out pensions and paying death in service grants).

This audit focussed on pensions administration, in particular the calculation of member benefits and lump-sums. The testing carried out to check 'accuracy of calculations' was performed by checking that the Altair records for a sample of members requesting quotations (for a variety of scenarios including standard and early retirement), or members actually retiring, had been accurately input, checked and authorised in accordance with relevant form/documentation. This was linked to the earlier review of Altair which tested the controls for the management of standing data and background calculations. This forms part of a wider remit, and other pension administration tasks will be reviewed separately in accordance with the agreed audit plan, including a more detailed review of calculations by checking the calculations produced by Altair.

We identified the following strengths:

- The Workflow Tasks set up for both active and deferred member benefit and lump sum calculations have been accurately configured in accordance with the scheme's rules and service level agreements.

Final Internal Audit Report – Pensions Administration (Benefits & Lump Sum Payments)

- A sample of 5 active leavers and 5 deferred leavers was reviewed and confirmed to have been accurately input into Altair and therefore producing accurate benefit/lump-sum calculations.
- There is an adequate separation of duties between the processing and approval of member benefit and lump-sum payments.
- All member and beneficiary transactions/records are retained in accordance with The Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014.

We identified the following weaknesses:

- Pension fund statistics confirm that for the month of November 2016, actions regarding the calculation of benefits and/or lump sums were only completed in accordance with the prescribed Service Level Agreement timescales 35% of the time overall.

This includes:

- Retirement quotes for active members were processed within 5 working days of receiving necessary information 20% of the time
- Retirement payments for active members were processed within 5 working days of receiving necessary information 43% of the time

Audit & Risk Personnel:

Lead Auditor: Sue Bressington

Acknowledgements:

Sincere thanks to Kathryn Shore, Vicky Brasier and all service staff for their help and assistance provided throughout the Audit review.

ACTION PLAN

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M1	<p><u>Reporting of Pension Fund Performance Statistics</u></p> <p>The November 2016 Task Report that is reported to The Pension Committee records that overall performance for processing benefits and lump sums had only been completed within the prescribed timescales 35% of the time.</p> <p>More detailed analysis includes:</p> <ul style="list-style-type: none"> Retirement quotes for active members were processed within 5 working days of receiving necessary information 20% of the time Retirement payments for active members were processed within 5 working days of receiving necessary information 43% of the time 	<p>Non-compliance with the Pension Fund's Service Level Agreement timescales.</p> <p>Members may be kept waiting to receive important information regarding their retirement funds longer than expected which may lead to complaints.</p>	<p>It is noted that the Pensions Committee expressed concerns at the last meeting (9th December) regarding the downward trend in achieving key performance indicators and targets, and suggested this could be due to staffing levels.</p> <p>The Member Services Manager and Pensions Manager should review and discuss the results of recent reports, and establish and record the reasons for the downward trend.</p> <p>It is also recommended that the statistics are presented in a comparative way such as; month in month or year on year, in order that trends (both upward and downward) can be easily identified and reviewed, and any issues addressed.</p>	<p>The Member Services team have undertaken a review of performance reports which indicate non-compliance with agreed SLA targets. Contributing factors include a sustained increase in work volume over the past 12 months and a reduction in available resource. The staffing resource is currently being addressed following Pension Committee approval to increase resource as part of an overall restructure of pensions administration.</p> <p>Admin workload and process have been reviewed to ensure priority cases (retirements/death) are actioned in accordance with SLA timescales.</p> <p>Performance reports have been revised to aid work planning and requirements to achieve compliance.</p> <p>May 2017</p>

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	23 June 2017	AGENDA ITEM NUMBER 14
TITLE:	GMP Reconciliation	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Explanatory note on Cessation of Contracting-out; GMP Reconciliation Appendix 2 - Current breakdown of comparison between HMRC and Avon Pension Fund data		

1 THE ISSUES

- 1.1 The purpose of this report is to update the Committee on the latest position concerning the reconciliation exercise being carried out between Avon Pension Fund and HMRC the effect of the cessation of Contracting out of the State Second pension.
- 1.2 HMRC have submitted files for Active Members as at 05/04/2016 [Closure Scan] and a file for members who no longer active [deferreds / pensioners]
- 1.3 An explanatory note on the cessation of contracting-out is attached as Appendix 1
- 1.4 An initial breakdown of the files checked is attached as Appendix 2

2 RECOMMENDATIONS

That the Committee:

- 2.1 Notes the current position regarding the reconciliation between Avon Pension Fund and HMRC.**

3 FINANCIAL IMPLICATIONS

- 3.1 The administrative and management costs incurred by Avon Pension Fund are recovered from the employing bodies through the employer's contribution rates
- 3.2 The reconciliation could produce not only additional pension payments but also reductions as correct information not included on our records could lead to reduced pensions being paid
- 3.3 Resources have been approved at a previous Committee.

4 Cessation of contracting out

- 4.1 The introduction of a Single State Pension will result in HMRC closing down their department responsible for contracting out around December 2018 and as a result there will be nowhere to check whether information on our records is correct.
- 4.2 All responsibilities for contracting will be crystallised on the HMRC information held at 31/12/2018. Therefore a reconciliation exercise is currently being undertaken to ensure the records held by HMRC are consistent with those held by Avon Pension Fund
- 4.3 Initial checks have been made comparing HMRC records with APF data. The next phase will be to check out the inconsistencies found and where necessary either adjust APF records or refer back to HMRC.
- 4.4 Two files have been sent through from HMRC showing the contracting-out details held on their files.
- 4.5 The first covers all non-active members [42529] such as pensioners and deferred pensioners but also contains records of members who have transferred out or had a refund where HMRC records are not correct. There are also records that HMRC have not linked to membership on the other list.
- 4.6 The other list [known as Closure Scan] [31468] covers the members who HMRC have listed as APF current active members as at 5/04/2016 when contracting out ceased. As GMPs ceased to accrue from April 1997 the number of members with GMPs is low. Once the contracting-out dates are matched then relevant GMP information can be input on APF records.
- 4.7 The HMRC data has been matched against APF records and details of this are included in Appendix 2
- 4.8 Breaking down the HMRC data into sections provides specific actions for each and key sections have been identified as requiring early investigations so that any referrals back to HMRC are made as soon as possible as HMRC will have to incorporate these within enquiries from other contracted-out pension schemes.
- 4.9 Initially the checks will be on specific GMP information held by APF on the administration system and for more historic cases on microfiche. Two temporary staff have been resourced to undertake this work.
- 4.10 When records have been finalised there will be some cases where pensioners will require a payroll adjustment and this will require some additional administration for the pension payroll section.

4.11 A further report will be submitted to Committee to update progress and to confirm any tolerance levels once the suggested national tolerance levels have been released. A decision will also be required on any recovery of overpayments.

5 RISK MANAGEMENT

5.1 No specific issues to consider.

6 EQUALITIES

6.1 None as this report is primarily for information only.

7 CONSULTATION

7.1 This report is primarily for information and therefore consultation is not necessary.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues to consider are contained in the report.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Alan South Technical Manager (Tel: 01225 395283) <i>[Geoff Cleak Pension manager 01225 395277]</i>
Background papers	<i>HMRC file downloads</i>
Please contact the report author if you need to access this report in an alternative format	

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<p style="text-align: center;">Introduction of Single State Pension Abolition of Contracting-out in 2016 Guaranteed Minimum Pension Reconciliation</p>

With the introduction of the Single State Pension in April 2016, contracted-out status ceased and HMRC have informed pension schemes of its intention to phase out its contracted-out section by December 2018.

As the LGPS was a contracted-out pension scheme, Avon Pension Fund has incurred obligations as to certain pension provisions connected with the State Second Pension.

From April 1978 to April 1997 pensions paid by APF had to cover the equivalent pension that the member would have accrued if they had been receiving the State Second Pension. This pension is known as the Guaranteed Minimum Pension [GMP]. APF is responsible for certain elements with regards to pension increases on the GMP.

The LGPS was required to meet a scheme reference test for members contracted out between April 1997 and April 2016.

Following the end of contracting out in April 2016, HMRC are proposing to send a statement to all individuals affected stating the amount of their GMP and who is responsible for paying the equivalent pension amount. Before this, schemes have been advised to reconcile the GMP values and dates they hold for their members with those calculated by HMRC or could face making overpayments to existing members and even accept a liability for individuals for whom they have no responsibility.

Until December 2018, schemes can challenge the figures where they believe discrepancies are the result of errors on HMRC's part, after this date, no further challenges will be accepted. There is therefore a limited window to make sure our own records tally with HMRC's.

APF have registered with HMRC who have provided lists for both non-active members [42529] and active members at 5/4/2016 [Closure Scan] [31468] who they consider that APF have a responsibility for a period of contracted-out membership. An initial comparison of these lists and our records has been carried out [see appendix 2]

Errors in GMP values can lead to potentially significant pension overpayments. Based on findings from the National Audit Office's enquiry into five public sector schemes, it has been estimated that the total overpayment on existing deferred and pensioner members within a small pension fund could be around £550,000.

APF have set up a reconciliation project

The project will

- Identify the member records affected, including those records where the fund and HMRC differ over responsibility for the liability.
- Assess impact of varying the matching tolerance.
- Reconcile member data, including service, held by the fund to records provided by HMRC.

- Identify any GMP liability that is not currently held on the record, e.g. at date of death where spouse's pension applies.
- Accelerate the investigation process by indicating likely causes of any mismatches
- Adjust any pensions on payroll if GMP is currently incorrect

Areas already identified within process that need consideration

On HMRC list but not on APF records

Excluding mismatches because of

- NI end letter differences
- Mismatches on NI No

Ex Teachers [the Contracting out Employer reference number for LGPS and the Teacher's Scheme is the same and some teachers have appeared on the HMRC lists

HMRC c/o out dates are not exact and often refer to start of a relevant tax year

No GMP recorded on record type but document on file

No GMP details on some dependant records

Split records [HMRC not combining records]

Service history lines missing

Basic errors on HMRC file [eg Surname shown as Mr John Sm instead of Smith]

Multiple Records [Which record is for which GMP?]

Future decisions to be made

There will need to be decisions made with regard to tolerance levels. There are continuing discussions taking place centrally regarding this and the proposed levels are

GMP amounts: Plus or minus £2 per week

Contracted-out dates: within a relevant tax year

Potential Adjustments to Pensions in payment

Underpayments

These will occur where APF are using a higher GMP figure than that held by HMRC resulting in member not receiving the correct pensions increase.

Overpayments

This will occur where GMP is lower than HMRC or where no GMP is recorded on the APF record. This will result in members getting pension increase twice on the GMP element [from APF and on State Pension]. Whilst any post 88 accrued GMP would only produce an overpayment where the increase was in excess of 3% any pre 88 would be on the total GMP figure.

How Pension increase works when a GMP applies

Member has pension of £400 with a GMP of £200 of which £100 was before April 1988 and £100 after. The member also accrued pension of £100 before and after the GMP applied [pre 1978 and pre 1997]

A pension increase of 4% would be calculated as follows:

Period		Pension	Pensions Increase	
	Total	£400	4%	£16
Pension Increase Calculation				
	Paid by		APF	Government
Pre 78	All APF	£100	£ 4	£0
GMP 78 - 88	All Government	£100	£ 0	£4
GMP 88 – 97	3% APF Excess by Government	£100	£ 3	£1
Post 97	All APF	£100	£ 4	£0
			£11	£5
LGPS revised total		£411		

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NON ACTIVES	HMRC 42529
-------------	---------------

RISK R.A.G.

A record found on Altair	38033
--------------------------	-------

Pre 1997	23486
----------	-------

Potentially a GMP could be our responsibility

HMRC no GMP but on Altair (270)	399	Review and Refer back to HMRC
------------------------------------	-----	----------------------------------

HMRC may not have transfer details or period was insufficient to accrue GMP	G
--	---

23087

HMRC GMP not Altair	3586	Check C/O Dates Notification on file	Potentially incorrectly paying all PI Some records may have been transferred out	R
---------------------	------	---	---	---

GMP on both (HMRC and Altair)	19501
-------------------------------	-------

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GMP amounts Reconciled to date	10554
--------------------------------	-------

No further Action Required	G
----------------------------	---

	8947
--	------

Difference is within Tolerance (± £2 per week)	3340	Confirm and approve Tolerance Level
---	------	--

	G
--	---

Outside Tolerance (± £2 per week)	5607	Check C/O Dates
--------------------------------------	------	-----------------

Split records not combined HMRC inconsistent with GMP calc date [DOL SPA]	A
--	---

--	--

Post April 1997 no GMP liability	13368	Confirm C/O Dates
----------------------------------	-------	-------------------

No GMP so no liability	G
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--	--

Possible Split Periods as appear on active list	2770	Merge periods Notify HMRC
--	------	------------------------------

	G
--	---

HMRC (Member NI No Only)	1179	Possible member records for Dependants GMP
--------------------------	------	--

Possible historic spouse's pensions where gmp recorded	A
---	---

Not found on Altair	4496
---------------------	------

Possible ex teachers and other schemes included on HMRC list	G
---	---

ACTIVES [Closure Scan]	HMRC 31468
Found on Altair	23024
Pre 1997	4152
GMP	4011
HMRC GMP = 0	56
Post 1997	18956
HMRC Blank record details NI No only found on Altair	1
Not found on Altair	8444
Pre 1997	85
GMP	84
HMRC GMP = 0	1
Post 1997	8298
	61

Majority of Members here are under SPA
Decision on future indexing of GMPs for those
reaching SPA from 6/12/2018 is expected next
year

If C/O dates agree update records if not query with HMRC	G
---	---

No GMP so risk very low	G
-------------------------	---

Possible recent leavers that HMRC have not
updated

Possible leavers that HMRC not aware of	G
---	---

No GMP so risk very low	G
-------------------------	---

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	23 JUNE 2017
TITLE:	PENSION FUND ADMINISTRATION (1) EXPENDITURE FOR YEAR TO 31 MARCH 2017 (2) CASHFLOW FORECAST
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 Summary Financial Accounts: Year to 31 March 2017 Appendix 1A Summary Budget Variances: Year to 31 March 2017 Appendix 2 Cash Flow Forecast	

1 THE ISSUE

- 1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the year to 31 March 2017. This information is set out in Appendices 1 and 1A.
- 1.2 This report also contains the Cash Flow report for the year ending 31 March 2017.

2 RECOMMENDATION

That the Committee notes:

- 2.1 The administration and management expenditure incurred for the year to 31 March 2017.
- 2.3 The Cash Flow report for the year to 31 March 2017.

3 FINANCIAL IMPLICATIONS

- 3.1 The administrative and management costs incurred by the Avon Pension Fund are recovered from the employing bodies through the employers' contribution rates.
- 3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.

4 COMMENT ON BUDGET

- 4.1 The summary Financial Accounts for the year to 31 March 2017 are contained in **Appendix 1**.

The expenditure for the year to 31 March 2017 was £1,328,000 over budget. Within the directly controlled Administration budget expenditure was £267,500 below budget. This was very largely due to lower than budgeted expenditure on salaries as a result of the delayed appointment of staff following the re-structuring of the Administration teams. It was also due to the holding over of expenditure on the IT strategy as the product offer regarding Employer Self Service is being revised.

- 4.2 In that part of the budget that is not directly controlled, expenditure was £1,595,500 over budget, mainly due to increased Investment Manager Fees as a result of market movements. Custody fees are also higher than budgeted as more portfolios are now included in the hedging programme and this has increased transaction costs.
- 4.3 Explanations of the most significant variances are contained in Appendix 1A to this Report.

5 CASH FLOW FORECAST

- 5.1 The Service Plan includes a cash flow forecast which is monitored within this report. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The change has necessitated a much closer monitoring and forecasting of cash flows. Negative cash flows are managed by taking more income from the investment portfolio. Details of the cash flow forecast for the whole Fund are given in **Appendix 2**.
- 5.2 The 2016 - 2019 Service Plan included a cash flow forecast showing a gross in-flow of c£150m and a gross out-flow of c£167m giving a net outflow in 2016/17 of just over £17.4m.

The actual cash flow to 31 March was an outflow of c£16.6m. The relatively small variation of £0.8m was due to a combination of factors the largest of which being lower lump sum payments than were expected and higher Future Service Contributions than forecast. The higher Future Service Contributions were largely due to a higher value of Augmentation (Strain on the Fund) payments in respect of early retirements. These factors were offset by increased cash out-flows relating to "Administration costs". This was as a result of an increase in the proportion of investment management fees invoiced, as opposed to being deducted at source.

6 EQUALITIES

6.1 No items in this Report give rise to the need to have an equalities impact assessment.

7 CONSULTATION

7.1 None appropriate.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 There are no other issues to consider not mentioned in this Report

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Head of Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Martin Phillips Finance & Systems Manager (Pensions) Tel: 01225 395259.
Background papers	Various Accounting Records
Please contact the report author if you need to access this report in an alternative format	

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APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2017

	FULL YEAR 2016/17		
	BUDGET £	ACTUAL £	VARIANCE £
Administration			
Investment Expenses	63,064	63,505	441
Administration Costs	83,930	76,462	(7,468)
Communication Costs	56,650	27,901	(28,749)
Payroll Communication Costs	73,137	93,704	20,567
Information Systems	237,261	247,558	10,297
Salaries	1,827,692	1,665,412	(162,280)
Central Allocated Costs	371,123	368,328	(2,795)
Miscellaneous Recoveries/Income	(214,342)	(197,929)	16,413
IT Strategy	158,593	44,697	(113,896)
Total Administration	2,657,108	2,389,639	(267,469)
Governance & Compliance			
Investment Governance & Member Training	383,250	317,806	(65,444)
Members' Allowances	39,965	41,248	1,283
Independent Members' Costs	45,300	34,878	(10,422)
Compliance Costs	681,546	630,022	(51,524)
Compliance Costs recharged	(250,000)	(333,970)	(83,970)
Pensions Board	40,600	20,428	(20,171)
Project Brunel	110,000	153,886	43,886
Total Governance & Compliance	1,050,661	864,298	(186,362)
Investment Fees			
Global Custodian Fees	87,500	126,876	39,376
Investment Manager Fees	17,229,125	18,971,596	1,742,471
Total Investment Fees	17,316,625	19,098,472	1,781,847
NET TOTAL COSTS	21,024,394	22,352,409	1,328,016

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APPENDIX 1A

Summary of main budget variances: Year to 31 March 2017

Variances Analysis of the full year expenditure and income, against budget.

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(91,000)	Reduced salaries expenditure due to:- - Benefits : Posts were held open pending the restructure. There were then delays in recruitment following the restructure.
	(71,000)	- Investments: Delayed appointment of actuarial team post and Assistant Investments Manager. Maternity leave and residual left from extra resources that were approved to support pooling.
IT Strategy	(114,000)	Expenditure delayed to allow the budget to be carried over to 2017/18 as the product offer from the supplier for Employer Self Service is revised.
Other	8,500	

Administration (267,500)

Investment Governance & Member Training	(65,500)	Expenditure on consultants was less than budgeted because:- -The re-tender of Vote Monitoring was carried out using a National Framework agreement saving expenditure on consultants. - Work on The Asset Liability Model was started later than planned but has now commenced with costs being incurred in 2017/18. -The AVC review was also delayed due to workload pressure.
Independent Member's Costs and Member's Allowances	(9,000)	Appointments budget for Independent Members was not fully used but will be carried forward to 2017/18.
Compliance Costs	(51,500)	Less expenditure than forecast was required on legal services. The costs of the Triennial Valuation were not as high as had been anticipated at the time of setting the budget.

Compliance Costs Recharged	(84,000)	As a result of the increasing number of conversions to Academy status and outsourcings a higher proportion of compliance costs were rechargeable.
Project Brunel	44,000	Expenditure on Project Brunel largely relates to the Fund's share of the costs allocated across the ten participating Pension Funds. The budget of £110k related to Stage 3a which ended 31/12/16 when Full Business Case was finalised. At end of Stage 3 the actual expenditure was £138k.
Pensions Board	(20,000)	The Pension Board controls its own expenditure. 2016/17 was the first full year of the Board's existence. The Board did not require the total resources that were allocated at the time of setting the budget.
Global Custodian Fees	39,500	Higher than anticipated transaction fees in the currency hedging portfolio following the decision to extend the hedge to include overseas property, hedge fund and infrastructure mandates.
Investment Manager Fees	1,742,000	The larger than expected rise in asset values over the year (especially in quarter ending 30 September) have resulted in higher than anticipated expenditure on fees.

Expenditure Outside	1,595,500
Direct Control	
Total	<u>1,328,000</u>

*() variance represents an under-spend, or recovery of income over budget
+ve variance represents an over-spend, or recovery of income below budget

APPENDIX 2

AVON PENSION FUND

Cash Flow Forecast

		FULL YEAR 2016/17		
		Forecast Per Service Plan	Out-turn	Variance
		£'000	£'000	£'000
Outflows				
Benefits	Pensions	(129,664)	(132,333)	(2,669)
	Lump sums	(34,568)	(27,443)	7,125
Total Benefits Outflows		(164,232)	(159,775)	4,457
Inflows				
Deficit recovery		14,109	14,786	677
Future service Contributions		121,262	128,077	6,815
Total Contributions		135,371	142,863	7,492
Net Cash Flow (Benefits and Contributions)		(28,861)	(16,913)	11,948
Net Transfers In & Out (budgetted as zero)		-	(2,416)	(2,416)
Investment income received as cash		14,954	13,340	(1,614)
Administration costs		(3,545)	(10,617)	(7,072)
Net Cash In-Flow (Out-Flow)		(17,452)	(16,606)	846

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	23 JUNE 2017
TITLE:	PENSION FUND ADMINISTRATION (1) SUMMARY PERFORMANCE REPORT TO 31 MARCH 2017 (2) PERFORMANCE INDICATORS TO 31 MARCH 2017 (3) TPR COMPLIANCE
WARD:	ALL
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Appendix 1 – Membership data</p> <p>Appendix 2 – KPIs and Caseloads</p> <p>Appendix 3 – Employer Performance</p> <p>Appendix 4 – TPR Data Improvement Plan</p> <p>Appendix 5 – Late Payers – January to March 2017 contributions</p> <p>Appendix 6 - Retirement customer service questionnaire results</p> <p>Appendix 7 – IDRP Current Cases</p> <p>Appendix 8 – Risk Register Top 10</p>	

1 THE ISSUE

- 1.1 The purpose of this report is to inform the Committee of performance figures for Fund Administration for the three months to 31 March 2017.
- 1.2 Further to the introduction of The Pension Regulator (TPR) Code of Practice 14 and The Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014, this report includes progress on the TPR Data Improvement Plan and levels of employer compliance.

2 RECOMMENDATION

The Committee is asked to note:

- 2.1 Membership data, Employer Performance and Avon Pension Fund Performance for the 3 months to 31 March 2017.
- 2.2 Progress and reviews of the TPR Data Improvement Plan.

3 MEMBERSHIP TRENDS

- 3.1 Appendix 1 provides a detailed breakdown of employer/member ratio and split between whole time and multiple employment membership as well as a snapshot of individual employer and member make up. The increasing number of new smaller employers to the Fund as part of the fragmentation of the employer base (newly created Academies and Transferee Admitted Bodies) has a direct impact on the administration workload with increased movement between employers, especially within the education sector. Continued development of data reporting going forward will enable further understanding of the demographic nature of employer type and associated member make up as employers continue to evolve.

4 LATE PAYERS

- 4.1 The Fund is required to monitor the receipt of contributions and report materially significant late payments to the Pensions Regulator.
- 4.2 The Fund maintains a record of all late payments, showing the days late, the amount of payment and reason for delay and whether the amount is of significance.
- 4.3 Appendix 5 reports late payers in the period to 31 March 2017. There were a small number of late payments in the reporting period, none of which were of material significance and therefore recorded internally but not reported to TPR. The Fund has taken mitigating action in each case to ensure employers are aware of their responsibilities going forward.

5 EMPLOYER PERFORMANCE

- 5.1 The leaver form checking process continues, immediately flagging employer data submission errors and omissions. It also addresses any issues at point of receipt enabling a prompt communication back with employers where necessary.
- 5.2 During the period from 1 January to 31 March a total of 1,768 leaver forms were received with an average error rate of 33.10%. This is a disappointing result considering the amount of work that has been put into employer engagement and training.

5.3 Sample of errors for March Leaver Forms

Employer	Leaver Forms Received	Number in Error	%
BANES Council	91	30	33
Bristol Council	137	34	25
North Som Council	72	17	23
South Glos Council	90	18	20
Academies	178	96	54
Further Education	177	59	33
Other	40	22	55

5.4 A review has now started to cover the following areas:

- (1) Review of the leaver form process to see if efficiencies can be made in terms of processes for APF and ease of completion for the employer
- (2) Analysing the data from Year End, TPR and Leaver forms with the aim of targeting poorly performing employers and setting up Data Improvement Plans. More information will be available for the next meeting
- (3) A series of employer forums has been arranged and it is planned to seek employer feedback on training and support provision by APF.

6 AVON PENSION FUND ADMINISTRATION PERFORMANCE

6.1 Key Performance Indicators for the 3 months to 31 March 2017

6.2 The information provided in this report is based on the Avon Pension Fund's Service Level Agreement which falls in line with the industry standards set out by the LGPC & used in CIPFA benchmarking. All standards fall within the regulatory guidelines set out in The Occupational & Personal Pension Schemes (Disclosure of Information) Regulations 2015 which require provision of information to members.

6.3 Full details of performance against target, in tabular and graph format, are shown in Appendix 2.

6.4 Following completion in November 2016 of the strategic project to overhaul Task Workflow a new suite of report extracts have been written and introduced to measure SLA standards for processing administration tasks. At the same time new RAG reporting standards have been set, replacing those previously in use which were deemed inconsistent. The new reports have flagged a high proportion of internal performance as being below standard. This can be evidenced by limited workforce availability and high volume of workload during the reporting period. Work targets are being set to improve performance over the coming months and the appointment of additional officers following the administration restructure should reflect an improvement of KPI's in future reports. A further enhancement is being made to the report to show the spread of performance over various time scales eg 5 to 10 days, 11 to 15 days etc, which will provide more meaningful data. This will be available from the autumn onwards.

6.5 Admin Case Workload

6.6 The level of work outstanding from tasks set up in the 3 month period is reported in Appendix 2 Annex 1 & 2 by showing what percentage of the work is outstanding. As a snapshot, at 31 March 2017 there were 7,728 cases outstanding of which 72% represents actual workable cases and 28% represents cases that are part complete, pending a third party response.

6.7 The increase in workable cases is due to a combination of events:

- The checking of leaver forms continues on the Member Services Team meaning that the Team have less resource available to work on other outstanding cases.

- Following the restructure the Member Services Team have 1x vacant post at Senior Pension Officer level. However appointments have now been made to fill 3x at Pension Officer and 1x at Assistant Pension Officer level.
- The volume of incoming work has increased further following the issue of member lists to all employers requesting they cleanse their data for this year end and send outstanding starter and leaver information.
- The overall outstanding cases remains high due to app 2,000 linking tasks set up in September 2016. A process for dealing with all new linking cases has been rolled out to the Member Services Team and a monthly report will now be run to pick up new cases. The 2,000 cases include the remaining backlog of cases built up between April 2014 and September 2016 which were not cleared as part of the project. Heywood only updated Altair to allow correct processing of these cases in May 2016.

7 YEAR END/BREACHES

7.1 Year End 2015/16 employer breaches

7.2 Of the 31 employers who breached the data queries exceeding 10% of membership levels set by the APF 29 have undertaken the bespoke training workshop to improve performance. Data Improvement Plans have been issued to all of them asking for their commitment to improve their data at this Year End. The penalty fine (£250) has been issued to the two remaining employers (St Ursula's Academy and Greenfield Academy – both EACT) who did not attend the training together with notification that they will be reported to TPR if continue to breach TPR Code. The breaches control spreadsheet has been updated according to the employer's response. All fined employers have been closely monitored during the year end process to ensure they are meeting the requirements of their Data Improvement Plan. Year End data has now been received and a report on progress will be provided at the next meeting

7.3 The above breaches are not considered significantly material. They will be reported to the Pensions Board and Pensions Committee, but are not considered of a significant nature to be reported to the Pensions Regulator. However the possibility of reporting employers to The Pension Regulator was explained at the training sessions.

7.4 The number of breaches for 2015/16 was significantly lower than previous years, indicating that promotion to all employers of their Year End responsibilities, the breaches policy, potential penalty fines as well as training opportunities and support from APF are proving effective.

7.5 Year End 2016 / 17

- (1) All year end spreadsheets were issued by 31 March with a deadline for returns of 2 May. An update will be provided at the next meeting.

8 CUSTOMER FEEDBACK – RETIREMENT QUESTIONNAIRE

8.1 Appendix 6 highlights the 25 responses to the online survey for retirees. In summary, 72% of respondents indicated that they were very satisfied (55%) or fairly satisfied (17%) with service they received from the Avon Pension Fund.

8.2 The Fund continues to explore ways to gather more customer feedback and will report back to the Committee on progress.

9 TPR DATA IMPROVEMENT PLAN

9.1 A summary of the Data Improvement Plan as at 31 March 2017 is shown below with a comprehensive breakdown attached in Appendix 4.

Data type	Cases brought forward	New cases	Completed	Outstanding	Completeness as % of membership
Actives	1,264	52	407	909	99.79%
Deferreds	4,774	86	219	4641	98.87%
Pensioners	82	2	5	79	99.96%
Dependants	53	0	24	29	99.91%
Total	6173	140	655	5658	99.63%

10 IDRP

10.1 Under the LGPS Regulations there is the provision that Scheme Members can exercise a right of appeal for any disagreement that cannot be resolved. This is done under an IDRP. The table at Appendix 7 shows the cases going through at the present time.

10.2 There are two cases where the Stage 2 adjudicator has awarded compensation of £500.

10.3 The first involved a member who was awarded deferred benefits in 1983 and when his benefits became payable at age 60 wanted to defer receiving them. This was not possible as the benefits were still subject to earlier regulations

10.4 The member then requested information as to the transfer out of his pension rights but was told that as he was within 12 months of his normal pension age this was also not possible.

10.5 The compensation was awarded on the basis that the member had never been informed of this 12 months restriction and therefore he had been denied a possible transfer at an earlier stage.

10.6 This has highlighted that because of the number of different regulations and overriding central government legislation there may be some leavers who left many years ago who may not be fully aware of all their options. As a result an update on this matter will be addressed with this year's deferred benefit statements.

10.7 The second case was an ill health case that for various reasons took a long time to resolve and the Pension Ombudsman recommended that such compensation would be appropriate in this instance.

10.8 Avon Pension Fund are in the process of setting up training for employers on first Instance decisions and IDRP, incorporating Ill health retirements

11 RISK REGISTER

- 11.1 The Risk Register follows the Council's format for each service. It identifies the significant risks that could have a material impact on the Fund in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk. Risks identified cannot be eliminated but can be treated via monitoring.
- 11.2 The risks identified fall into the following general categories:
- (i) Fund administration & control of operational processes and strategic governance processes and TPR compliance – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information
 - (ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance
 - (iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and annual review of investment strategy, robust legal contracts to protect against fraud & negligence
 - (iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team
 - (v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process
- 11.3 The Fund continues to invest significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service. The arrangements in place are supported by external and internal audit reviews.
- 11.4 The Fund reviews all risks annually and the top 10 risks and changes quarterly with the latest review in June 2017.
- 11.5 Two risks have increased from Low to Medium since the last report: (i) R16: Staffing – *failure of the Fund to ensure it has adequate resources and staff with the requisite skills and competencies to administer the Fund*. Recruitment of new staff officers to the Funds administration following the admin restructure. The Fund has implemented a programme of skills and knowledge training to mitigate risk. (ii) R01 – System failure – Two major systems update projects are due to begin in sequence with the software provider. These are required to replace the existing system software platform in the first instance followed by an update to the existing pensions payroll platform. Agreed project plans are in place identifying risk, key milestones, officer resource and overall timetable for completion.
- 11.5 The top 10 risks, including their likelihood, impact and mitigating actions are set out in **Appendix 8**.

12 RISK MANAGEMENT

- 12.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

13 EQUALITIES

- 13.1 No items in this report give rise to the need to have an equalities impact assessment

14 CONSULTATION

- 14.1 None appropriate

15 ISSUES TO CONSIDER IN REACHING THE DECISION(S)

- 15.1 There are no issues to consider not mentioned in this report.

16 ADVICE SOUGHT

- 16.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Geoff Cleak, Pensions Manager Tel: 01225 395277
Background papers	Various statistical documents
Please contact the report author if you need to access this report in an alternative format	

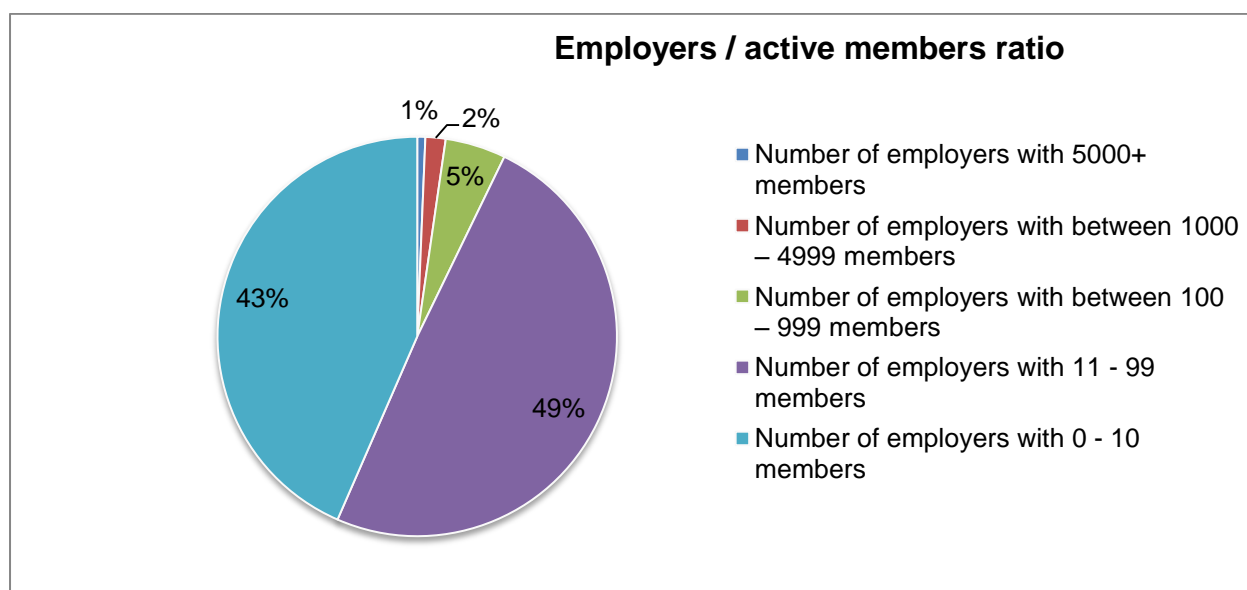
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Annex 1 - Active membership

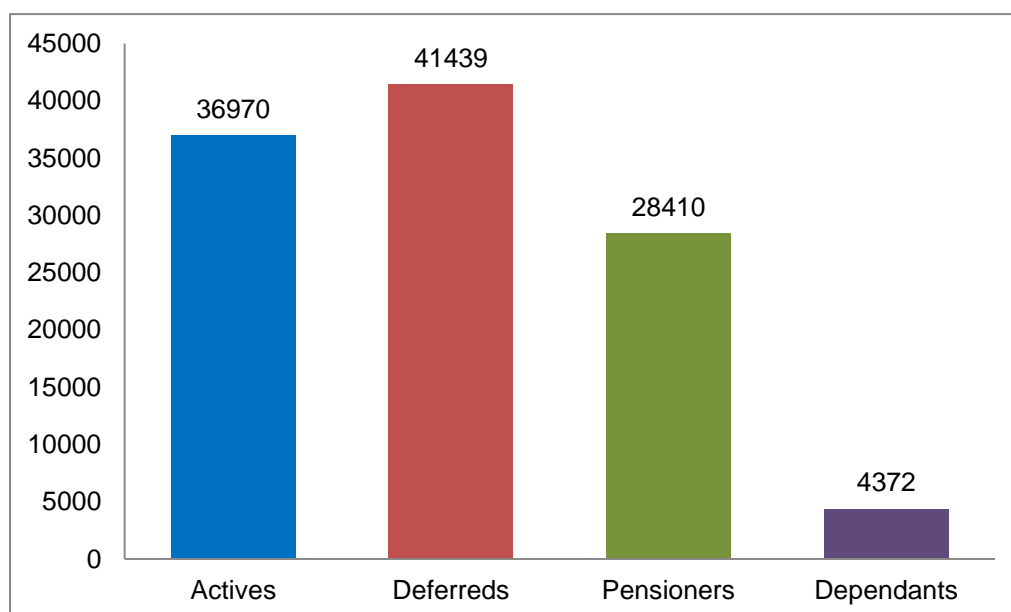
Total Active Members	29,833
Total Active Records	36,700
Total Active Members with more than 1 active record	3,221

Annex 2 - Employers / active member ratio

Employers / active members ratio	
Number of employers with 5000+ members	2
Number of employers with between 1000 – 4999 members	5
Number of employers with between 100 – 999 members	16
Number of employers with 11 - 99 members	147
Number of employers with 0 - 10 members	116
Total	286



Annex 3 – Total number of member records by type – as at 31 March 2017

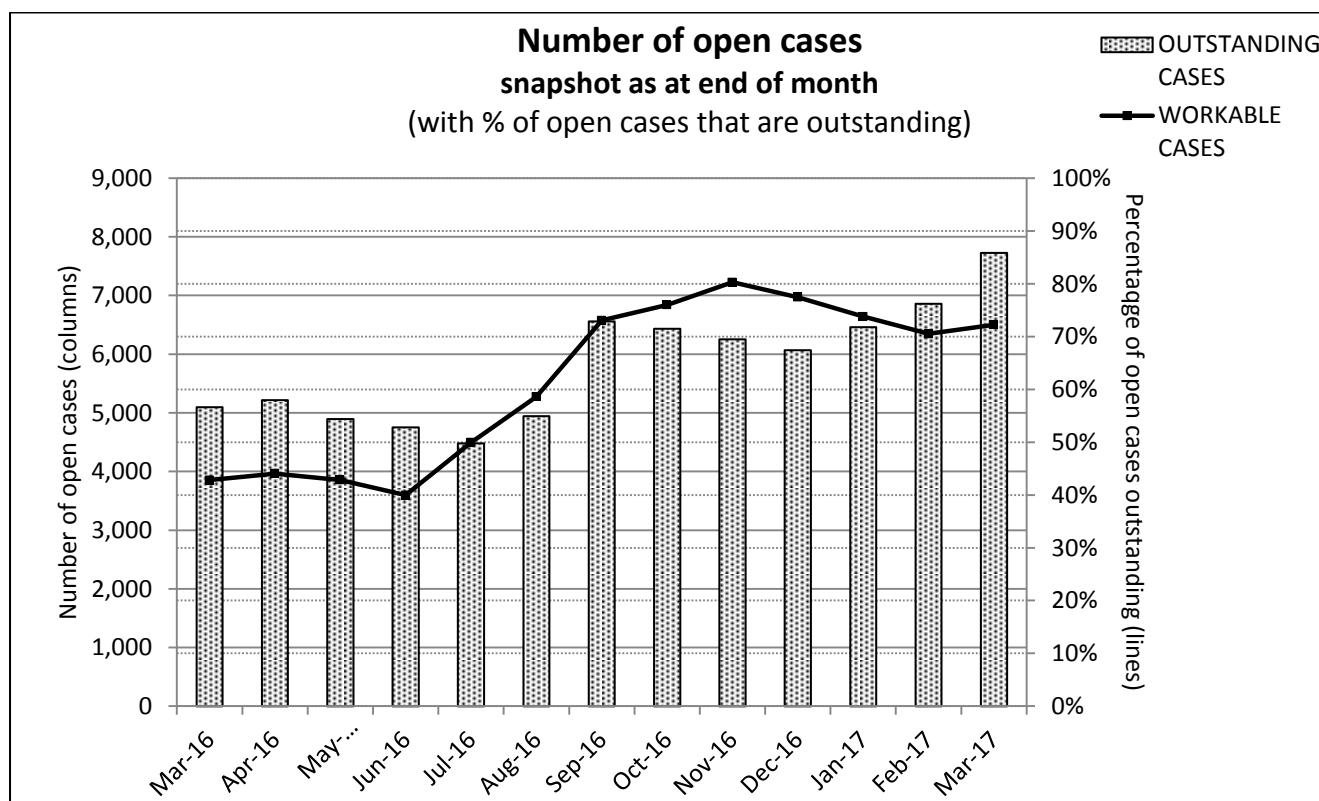


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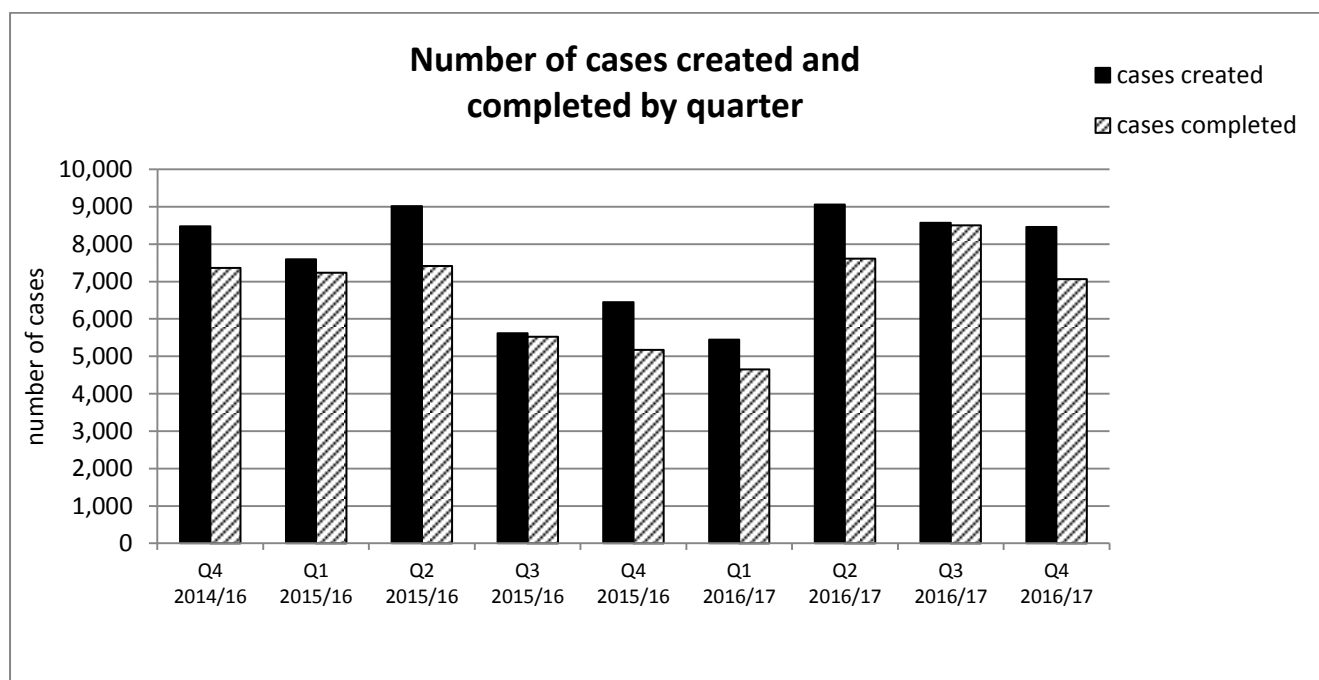
SLA standards for processing admin tasks		3 months to 31/12/16	Average days to process	2015/16 actual	2016/17 target	RAG	Periods ago			Trend	Notes
							1	2	3		
Retirement (from Active)	Quote - 5 days	56.21%	11 days		100%	R	R			▲	290 cases 163 within target
	Payment - 5 days	53.65%	14 days		100%	R	R			▲	274 cases 147 within target
Retirement (from Deferred)	Quote - 30 days	38.81%			100%	R	R			▲	67 cases 26 within target
	Payment - 5 days	70.70%			100%	R	R			▲	157 cases 111 within target
Deaths	Notification - 5 days	81.90%	4 days		100%	A	A			◆	116 cases 95 within target
	Payment - 5 days	19.13%	16 days		100%	R	R			▼	115 cases 22 within target
Refund of contributions	Quote - 5 days	62.45%			100%	R	R			▲	687 cases 429 within target
	Payment - 10 days	78.59%			100%	A	R			▲	327 cases 257 within target
Deferreds (early leavers)	20 days	5.92%			100%	R	R			▲	355 cases 21 within target
Transfers In	Quote - 10 days	17.57%			100%	R	R			▲	74 cases 13 within target
	Payment - 10 days	0			100%						No cases processed in period
Transfers Out	Quote - 10 days	11.11%			100%	R	R			▲	216 cases 24 within target
	Payment - 10 days	32.26%			100%	R	R			▼	31 cases 10 within target
Estimates	10 days	N/A			100%						No data available at present
Year End data from employer	by 30 June	0		95%	100%		G				N/A this period
Issue ABS	by 31 August	0		96%	100%		G				N/A this period
Notify scheme changes	within 3 months	0		100%	100%		G				N/A this period
Issue Active newsletter	2 per year	0		2	2		G				None issued this period
Issue Pensioner newsletter	1 per year	0		1	1		G				None issued this period
Other performance standards											
Retirements survey - satisfaction %		72%			65%		G				New survey implemented
% of employers signed up to submit data electronically (ESS/iConnect)		66%		58%	70%		G				
% of active membership covered by ESS/iConnect		98%		72%	90%		G				
% of all members with electronic access (MSS)		15%									No annual target set
% of active members with electronic access (MSS)		19%									No annual target set

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

Annex 2

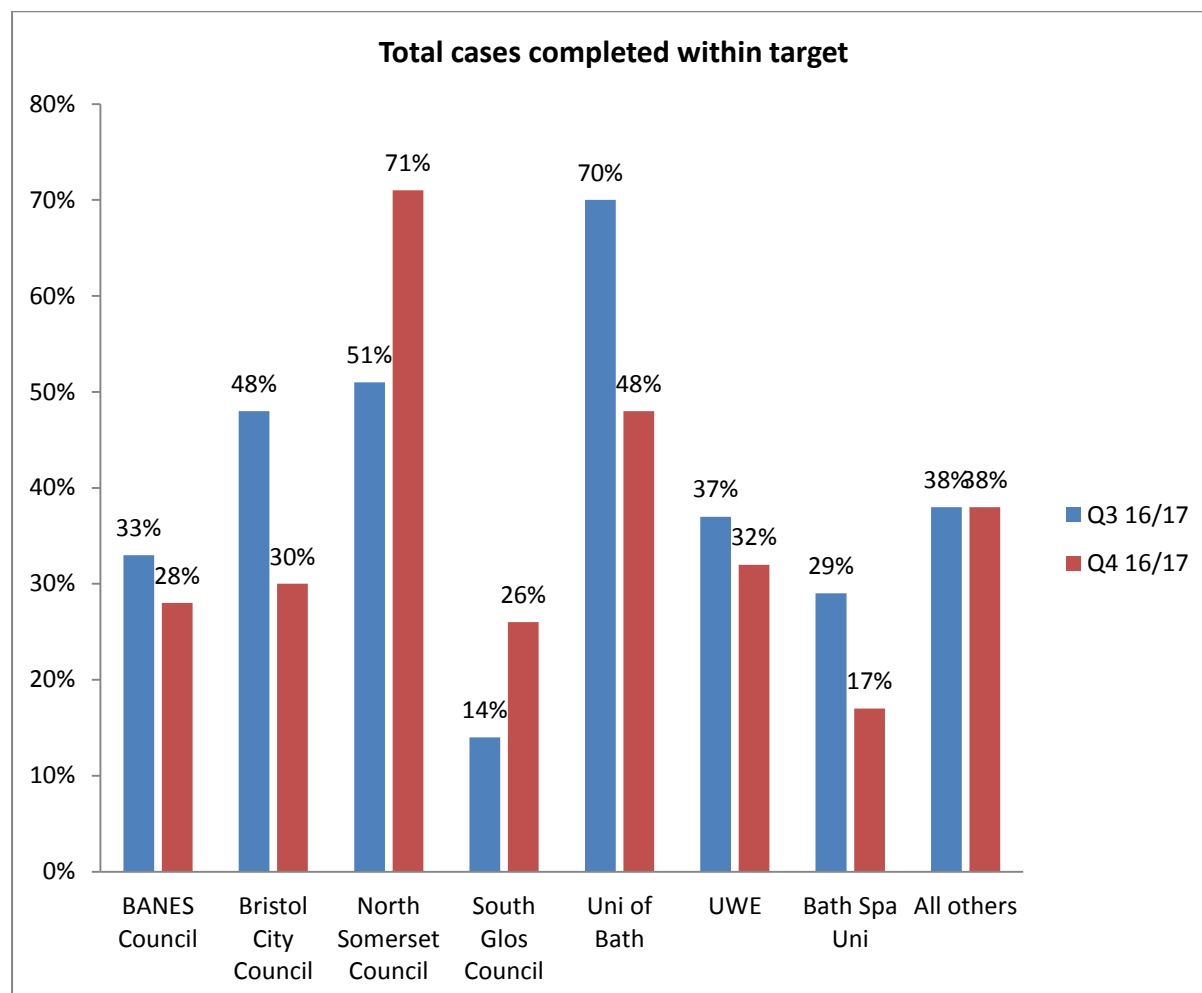


Annex 3



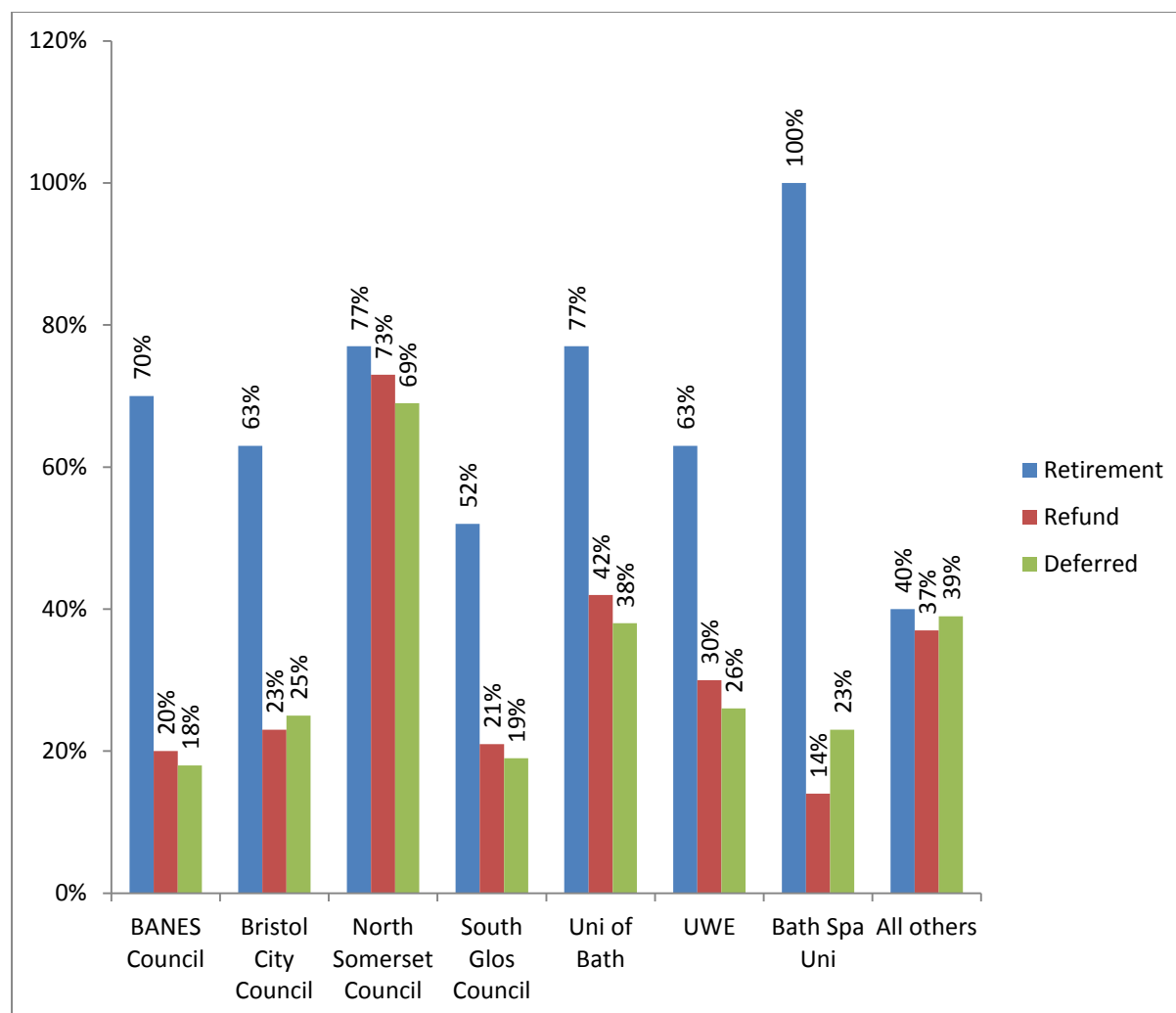
Employers completing leaver forms for retirements, refunds and deferments within SLA targets.

Annex 1 – Total cases - Percentage and number of cases completed within target.



	Q3 16/17		Q4 16/17	
	%	Cases	%	Cases
BANES Council	33%	56	28%	37
Bristol City Council	48%	159	30%	103
North Somerset Council	51%	93	71%	100
South Glos Council	14%	42	26%	60
Uni of Bath	70%	28	48%	31
UWE	37%	43	32%	58
Bath Spa Uni	29%	17	17%	15
All others	38%	164	38%	201

Annex 2 – Breakdown by case type within target

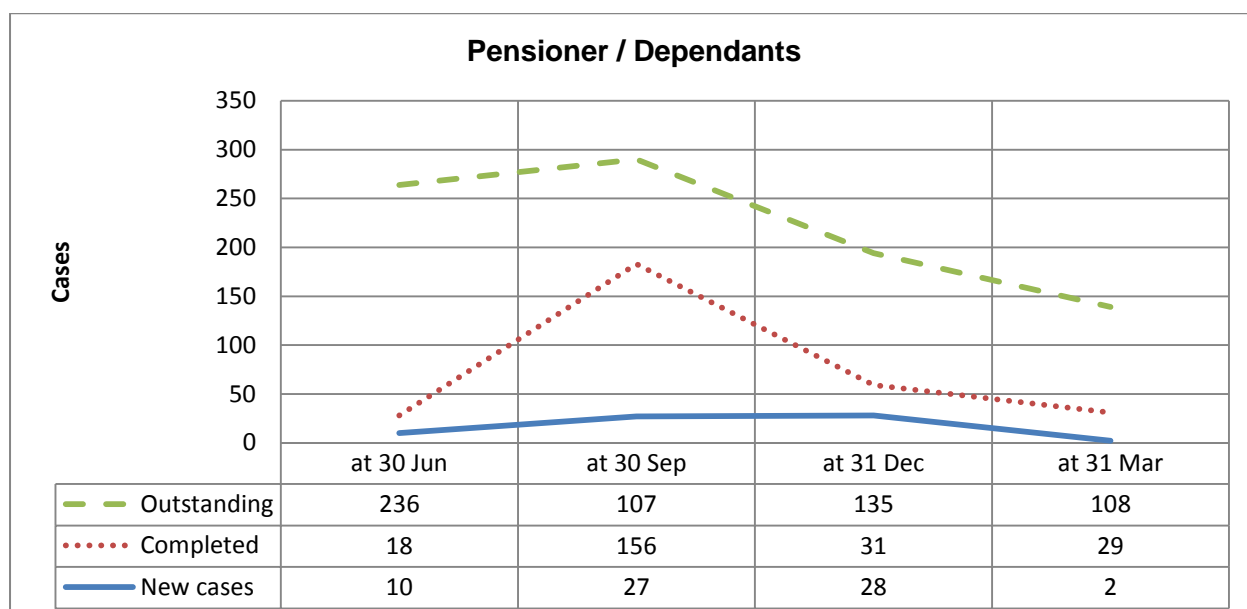
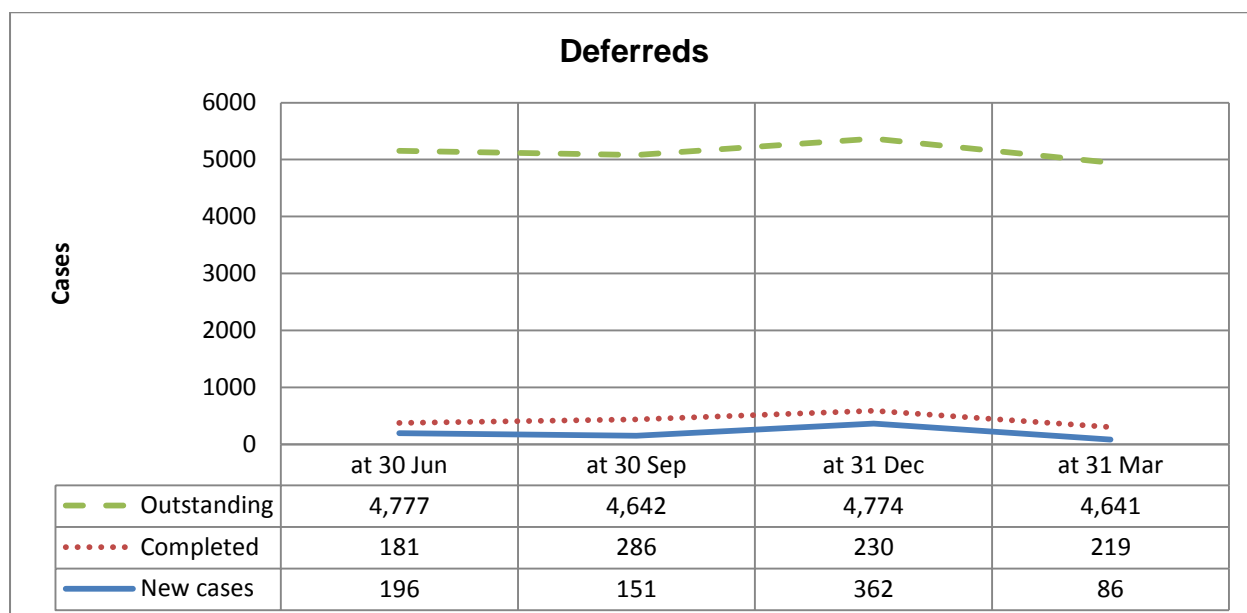
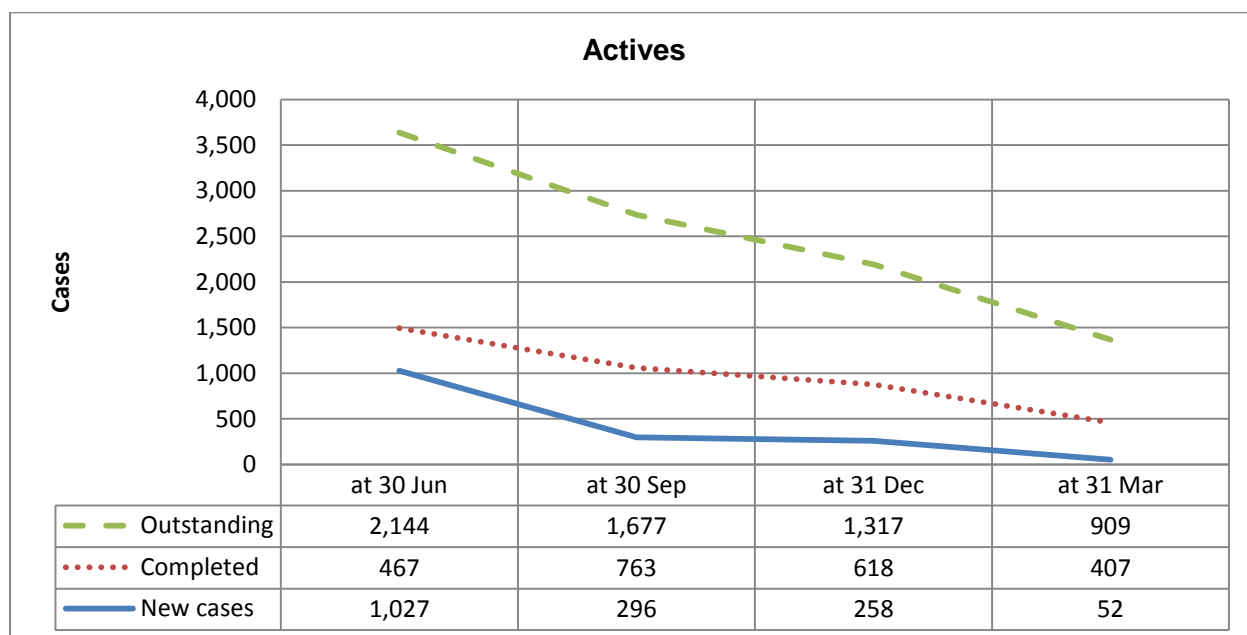


Within target	Retirement		Refund		Deferred	
	%	No. of Cases	%	No. of Cases	%	No. of Cases
BANES Council	70%	16	20%	9	18%	12
Bristol City Council	63%	32	23%	29	25%	42
North Somerset Council	77%	10	73%	32	69%	58
South Glos Council	52%	24	21%	13	19%	23
Uni of Bath	77%	10	42%	11	38%	10
UWE	63%	12	30%	29	26%	17
Bath Spa Uni	100%	1	14%	8	23%	6
All others	40%	29	37%	68	39%	104

Annex 1 – Data

Data type	Cases brought forward	New cases	Completed	Outstanding	Completeness as % of membership
ACTIVES					
36,761					
Addresses	353	19	28	344	99.064%
Forename	2	1	3	0	100.00%
Surname	0	0	0	0	100.000%
Date of birth	5	2	1	6	99.984%
NI number	53	3	46	10	99.973%
Title	1	3	1	3	99.992%
Sex mismatch	9	10	7	12	99.967%
Format of hours	4	9	13	0	100.000%
Date joined Fund missing	0	0	0	0	100.000%
Payroll ref missing	27	5	13	19	99.948%
Casual hours missing	361	0	214	147	99.600%
Leaver forms missing	449	0	81	368	98.999%
Total	1,264	52	407	909	99.79%
DEFERREDS					
41,265					
Addresses	4,110	37	7	4140	89.967%
Forename	1	0	1	0	100.00%
Surname	0	0	0	0	100.000%
Date of birth	2	1	2	1	99.999%
NI number	1	48	1	48	99.884%
Title	0	0	0	0	100.000%
Sex mismatch	0	0	0	0	100.000%
Format of hours	0	0	0	0	100.000%
Date joined Fund missing	0	0	0	0	100.000%
Historic refunds	660	0	169	491	98.905%
Total	4,774	86	180	4680	98.87%
PENSIONERS					
28,317					
Addresses	78	1	0	79	99.960%
Forename	0	0	0	0	100.000%
Surname	0	0	0	0	100.000%
Date of birth	0	0	0	0	100.000%
NI number	1	1	2	0	100.000%
Title	0	0	0	0	100.000%
Sex mismatch	3	0	3	0	100.000%
Total	82	2	5	79	99.96%
DEPENDANTS					
4,454					
Addresses	31	0	2	29	99.907%
Forename	0	0	0	0	100.000%
Surname	0	0	0	0	100.000%
Date of birth	0	0	0	0	100.000%
NI number	22	0	22	0	100.000%
Title	0	0	0	0	100.000%
Sex mismatch	0	0	0	0	100.000%
Total	53	0	24	29	99.91%

Annex 2 - Quarterly performance charts



APPENDIX 5

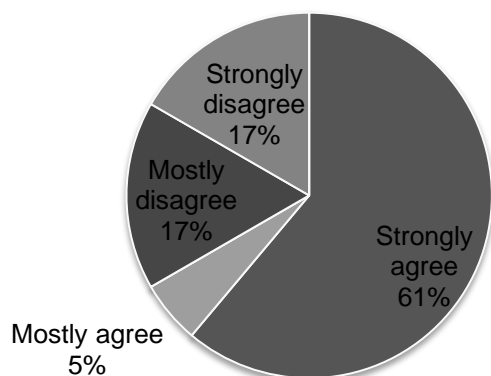
Employer	Payroll Month	Days late	Cumulative occasions	Amount	Significance	Reason / Action
Patchway Town Council	January	1	4	4,401	Value/days late not material	The employer was sent a formal reminder of their obligations in March. Since then their payments have been on time.
Clifton Suspension Bridge	January	5	3	4,224	Value/days late not material	The employer pays by cheque. They have been reminded to allow time for delays in delivery and clearing
Frampton Cotterell Parish Council	February	2	1	1,851	Value/days late not material	The employer has been reminded of their obligation to pay by the required date and to review their procedures
Aspens Services Ltd (Downend Sch)	February	7	1	866	Value/days late not material	The employer has been reminded of their obligation to pay by the required date and to review their procedures
Bath College	March	3	1	70,813	Significant value	Payment was delayed due to non-availability of the necessary authorisers. Following changes in the organisation this should not reoccur. The April contributions were paid on time.
Glen Cleaning Co	March	2	1	1,240	Value/days late not material	The employer has been reminded of their obligation to pay by the required date and to review their procedures
Total Days		20		83,395	Over Three Months	
Total Contributions in Period				32,437,976	Late Payments as % of total = 0.26%. Late Payments from 6 out of a total of 297 employers	
All late payers are contacted and reminded of their obligations regarding the timing of payments. Where appropriate they are advised on alternative, more efficient methods of payment. Where material, interest will be charged on late payments at base rate plus 1% in accordance with the regulations.						

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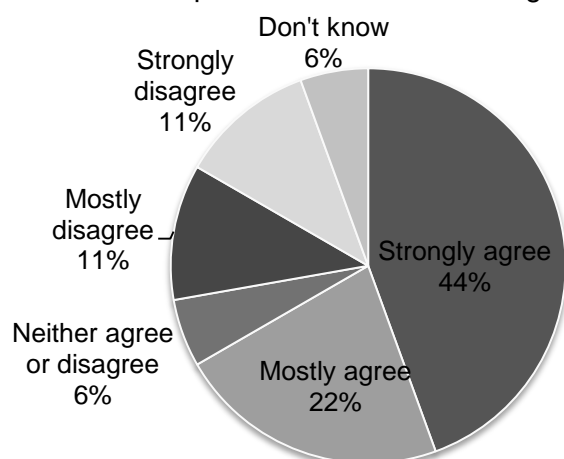
25 responses

Q1 To what extent do you agree or disagree that the Avon Pension Fund ...

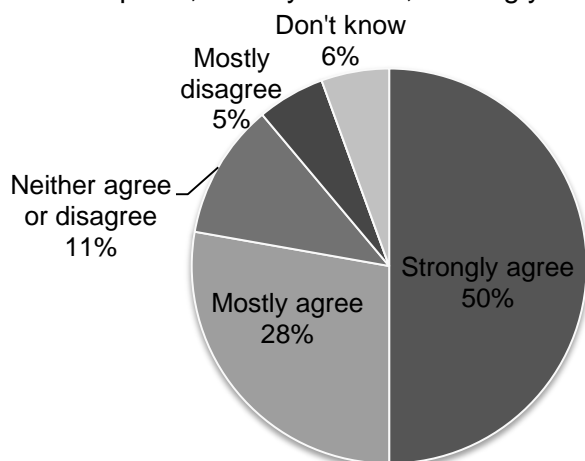
kept you informed about your retirement and gave accurate and complete information on time



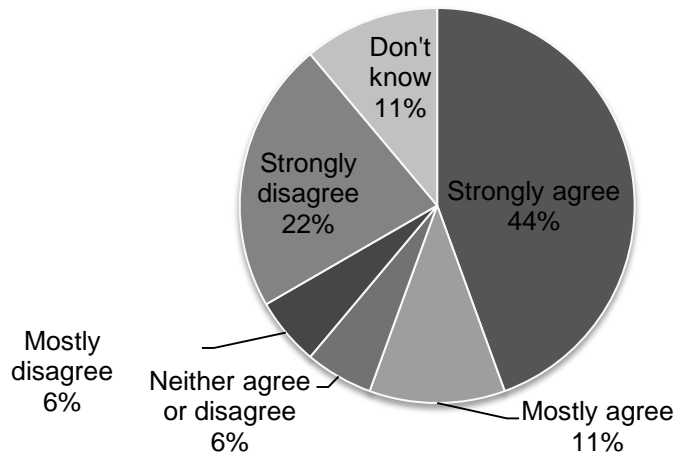
were professional and knowledgeable



had a polite, friendly attitude, treating you with respect

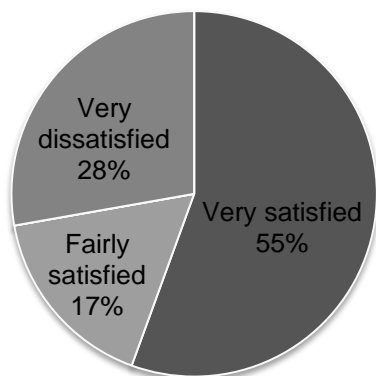


answered any questions or issues that you had



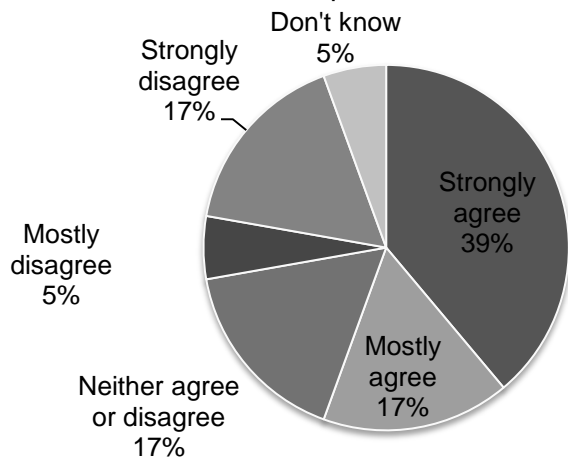
Q2 Overall, how satisfied are you with service you received from the Avon Pension Fund?

Overall, how satisfied are you with service you received from the Avon Pension Fund?

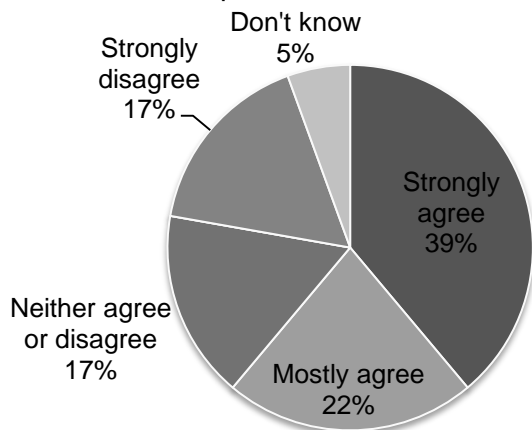


Q3 To process your retirement efficiently and on time we require timely and accurate information from your former employer. To what extent do you agree or disagree that your former employer...

kept you informed about your retirement and gave accurate and complete info on time



delivered what they promised and dealt with any problems that arose



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AVON PENSION FUND: IDRP STAGES 1 and 2							Current Cases			
Stage	Reason	IDRP Form Received	Stage 1 by	Date For Review Completion	Delay letter Sent	Review Completed	Not Upheld [NU] Upheld [UP] or Upheld & referred back [URB]	By	Last Date for Next Stage Appeal	
2	III Health Retirement Tier level 2nd IDRP	18/03/2016	Employer	17/05/2016	22/05/2016	26/09/2016	Decision Imposed	Council's Principal Solicitor and Monitoring Office	Referred back to N Somerset decision enforced	Compensation Paid £500 TPO advised
Page 313 2	III health decision	14/10/2016	Employer	13/12/2016	17/11/2016 17/11/2016	19/12/2016	NU	Technical Manager [Pensions]	6 mths to apply to TPO	TPAS enquired
2	Compensation for potential loss following misinformation	07/11/2016	APF	06/01/2017	N/A	08/01/2017	UP	Council's Principal Solicitor and Monitoring Office	Cleared	Compensation paid £500
1	Transfer procedures Pension Scam	14/11/2016	APF	02/03/2017	14/11/2016	18/04/2017	NU	Technical Manager [Pensions]	18/10/2017	
1	Not given ill health pension	12/03/2017	Filton Avenue Primary School	11/05/2017	N/A	11/05/2017 Revised 25/05/2017	NU	Papers passed over	info only at this stage	
1	Refused Refund	10/04/2017	APF	09/06/2017	10/04/2017	20/04/2017		Technical Manager [Pensions]		
2	Transfer procedures Pension Scam	19/05/2017	APF	18/07/2017						

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APPENDIX 8

AVON PENSION FUND RISK REGISTER - TOP 10 RISKS

Owner(s): Liz Woodyard / Geoff Cleak

Date updated: 01/06/2017

RISK STATUS KEY	
LOW	1 to 6
MEDIUM	7 to 14
HIGH	14 to 25

	#	DESCRIPTION	DATE ENTERED	RISK OWNER	CATEGORY	RISK SCORE										TOTAL	CURRENT OVERALL STATUS	PERIODS AGO			CURRENT STATUS OF ACTIONS	ACTIONS TO MANAGE RISK
						Likelihood					Impact											
						1	2	3	4	5	1	2	3	4	5							
1	R42	Increase political pressure to reform the scheme & governance, reduce costs and direct investment decisions. If the fund does not have a robust plan for change, risk that government will direct funds. Implications: committee is unable or does not make decisions in best interest of the fund.	12-Sep-13	Head of Business, Finance and Pensions	Investment Strategy				4					4		16	HIGH	H	H	H	On target	The Investment Strategy Statement clearly defines the investment principles and objectives and the strategy in place to deliver. The Fund is actively developing Brunel Pension Partnership (BPP) to meet the government broad agenda to reduce investment fees and increase efficiency. BPP and the LGPS Cross Pool Collaboration Group is actively engaging with government on a wide range of issues related to the government's agenda.
2	R25 Page 315	Lack of knowledge and continuity within the Committee (risk arises as some members face re-election simultaneously. Until members are fully trained maybe a delay in decision making).	01-Jul-08	Pensions Investments Manager	Governance				4				3			12	MEDIUM	M	M	M	On target	There is a training plan in place linked to the 3 year Service Plan, which is periodically reviewed. The Committee includes 2 independent members that are not subject to the electoral cycle. An induction programme is provided for all new members, tailored for the Committee agenda for the next 12 months. Periodically as self-assessment of training needs is undertaken to ensure knowledge gaps are identified and addressed in the training plan.
3	R26	The Fund fails to achieve investment returns sufficient to meet its liabilities as set out in the valuation. This may be due to strategy failure or investment managers appointed for each investment mandate failing to achieve their benchmark. Implications: this could negatively impact employer contribution rates.	01-Jul-08	Pensions Investments Manager	Investment Strategy				3					4		12	MEDIUM	M	M	M	On target	A strategic review of the investment strategy is undertaken at least every 3 years. It determines the appropriate strategy to deliver the returns assumed by the actuarial valuation. The Fund adopts a diverse strategy across assets and managers which limits the impact of any one asset class or manager on the performance of the fund. The strategy is reviewed quarterly and annually by Committee (between strategic reviews) when the investment performance is measured against the liabilities, the strategic benchmark and mandate performance targets. The managers are monitored against their mandate guidelines quarterly by the Investments Panel. Recommendations for action are made to Committee or actioned under delegated powers of the Panel. Significant due diligence is undertaken when appointing managers; process ensures there is not undue reliance on past performance. Specialist advice is commissioned covering both strategic issues, ongoing monitoring of strategy and managers and evaluating potential managers during procurement process.

4	R51	Risk of Fund retaning incorrect pensions liability - GMP Reconciliation Exercise. Following the abolishment of contracting out earnings effective from April 2016, requirement to undertake a reconciliation of GMP liability between Fund and HMRC. Completion date due end 2018	10-Aug-15	Technical & Compliance Advisor	Admin Strategy			3						4		12	MEDIUM	M	M	M	On target	There is a project plan in place linked to 3 year Service Plan which is periodically reviewed. Additional resource identified as 1.5 fte to carry out reconciliation under management of Technical & Compliance Advisor. Exceptions reported to HMRC and progress/action reports provided periodically to Pensions Committee & LPB.
28	R56	Significant increase in employers especially if all schools convert to academy status.		Pensions Manager	Admin Strategy			4					3			12	MEDIUM				On target	Resources have been increased to support employer services within both actuarial and administration teams, reflecting the increase in new schedule bodies and admission bodies.
22	R16	Staffing – Failure of the Pension Fund to ensure it has adequate resources and staff with the requisite skills and competencies to administer the Fund.	01-Jul-08	All Managers	Admin Strategy			4					3			12	MEDIUM	L	L	L	On target	Officers are trained and updated in key areas. Attendance at relevant national courses and internal training with peers. Succession planning to build resilience and minimise risk of losing skilled/specialist staff. Implementation of skills and knowledge training plan following admin restructure (Jan 2017) and introduction of Apprentice programme from April 2017.
18	R01	System Failure – Failure of the Fund to ensure it has adequate and robust systems to ensure pensions are administered and paid in accordance with statutory obligations.	12-Sep-13	Pensions Manager	Admin Strategy			3					3			9	MEDIUM	L	L	L	On target	The Fund has policies in place which are periodically reviewed to ensure statutory obligations are met. Systems Control team has been incorporated with Financial Systems management to build internal resilience. Operational agreements in place with/for (i) Financial Systems (ii) SLA with Heywood (software provider) (iii) B&NES IT for corporate systems (iv) APF DR policy (v) B&NES BCP (vi) Daily system back-up. Two major systems update projects about to be undertaken with Heywoods 1) Move of Altair to a Windows platform due to the existing risk presented to APF by the age of and type of platform of the existing Altair servers 4 - 5 week project) 2) Java technical platform change for payroll support. Appx 12 week project requiring min of 2 months of dual processing
5	R54	The Fund is a participating fund in the Brunel Pension Partnership for pooling its assets. The project is now in implementing phase. There is a risk that there are delays in implementation putting financial model (savings) at risk; that key resources or adequate resources are not available; Key senior staff are not recruited in line with timetable; that decision making by local funds stalls due to local election cycle. Any of the above could seriously impact the Fund's and pool's ability to meet the government's agenda re. pooling of assets.		Pensions Investments Manager	Governance		2							4		8	MEDIUM	M			On target	Established shadow governance structure to ensure the project is effectively managed including Committee representatives, finance and legal officers and investment officers. Expert advice has been commissioned to advise on the legal structure required, FCA authorisation and related issues. Advice will be commissioned as required. Additional resources provided to project team to manage implementation stage. Local funds have put delegations in place to ensure decisions can be made. Chair appointed April 2017

6	R05	Data Protection – Failure to secure and manage personal data held by the Pension Fund in an appropriate manner and in line with statutory responsibilities.	01-Jul-08	Pensions Manager	Admin Strategy			3				2				6	LOW	L	L	L	On target	All staff undertake to share personal data with 3rd parties through controlled framework; compliant with B&NES DP policies. Awareness of potential risk in not doing so. Members including pensioner members are informed regularly (via payslips & newsletters) that data is provided to third parties for the detection / prevention of fraud in accordance with National Fraud Initiative. (On-going) Further staff training to be undertaken in 2017 to reinforce awareness
7	R10	Contributions from employing bodies are incorrect in value or are late. Implications: adverse short term cash flow; employer funding position could be over/under stated; possible breach of TPR code which could lead to fines.	12-Sep-13	Finance & Systems Manager (Pensions)	Admin Strategy		2						3			6	LOW	L	L	L	On target	Monthly receipt of contributions is monitored and payments received are reconciled to LGPS 50 forms. Incorrect or non-payments are followed up in line with TPR code. Annually reconcile receipts from employers to member records. Late payers are reported quarterly to Committee and followed up in line with Late Payers policy.

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	23 June 2017	AGENDA ITEM NUMBER 17
TITLE:	LGPS: Regulatory update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – List of current developments affecting or expected to affect Scheme Administration		

1 THE ISSUES

- 1.1 The purpose of this report is to update the Committee on the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration. This includes any responses to consultations that have been made.
- 1.2 An updated list is included in Appendix 1
- 1.3 The current position regarding LGPS amendment regulations and the proposed Exit Payment regulations is included in this report

2 RECOMMENDATIONS

That the Committee:

- 2.1 Notes the current position regarding the developments that could affect the administration of the Fund.**
- 2.2 Notes the current position regarding HM Treasury Exit Payments Legislation and potential timescales**

3 FINANCIAL IMPLICATIONS

- 3.1 The administrative and management costs incurred by Avon Pension Fund are recovered from the employing bodies through the employer's contribution rates
- 3.2 Some of the issues being proposed is intended to reduce costs on certain payments employers make on early retirements
- 3.3 Any other specific areas will be reported as required.

4 LGPS 2014: Further Regulations Amendments Update

- 4.1 The amendment regulations are still awaited. At the previous meeting it was reported that the section relating to Best Value/Fair Deal was to be made into a separate item. It is now expected that the part dealing with Freedom and Choice for AVCs will also be set out from the draft regulations
- 4.2 There will be further consultations on both of these issues.
- 4.3 The other amendments in the draft are being considered on a topic by topic basis and DCLG will try to move these forward as appropriate
- 4.4 A further delay will occur because of the General Election

5 Treasury Consultations on Exit Payments in the Public Sector

- 5.1 .This relates to the following
 - 1) Recovery Regulations [earners over £80k who leave with exit payment and then re-join public sector within one year]
 - 2) Exit Pay Cap [£95k]:
 - 3) Further Reforms [reducing exit payments by including pension costs]
- 5.2 No further developments have been reported and further consultations are expected on 2) and 3)

6 Supreme Court decision Northern Ireland case

- 6.1 .This was reported in March where a member of the LGPS for Northern Ireland died in December 2009 and when his Partner claimed a survivor's pension was refused on the grounds that the member had not completed a form nominating her partner as a Co habiting partner.
- 6.2 Following the full legal process the Supreme Court decided that the form was not a required element and that the Partner's pension should be paid from 2009.
- 6.3 It was around this time that the other LGPS schemes in England/Wales and Scotland were being changed and both had the requirement for a Co-habiting Partner Nomination form removed.
- 6.4 DCLG are currently looking into whether the LGPS needs to consider whether any decisions made under the previous LGPS Regulations (E & W) for the period April 2008 – March 2014 should be reviewed.

7 RISK MANAGEMENT

7.1 No specific issues to consider.

8 EQUALITIES

8.1 None as this report is primarily for information only.

9 CONSULTATION

9.1 This report is primarily for information and therefore consultation is not necessary.

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 The issues to consider are contained in the report.

11 ADVICE SOUGHT

11.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Alan South Technical Manager (Tel: 01225 395283) <i>[Geoff Cleak Pension manager 01225 395277]</i>
Background papers	<i>Regulations and accompanying notes; DCLG Consultation May 2016 LGPS Regulations 2013 Exit Payment Consultations</i>
Please contact the report author if you need to access this report in an alternative format	

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Update of Matters circulating that are likely to affect Scheme Administration JUNE 2017

Organisation	Subject	Link	Comments
HM Treasury	Pensions scams: consultation	https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation	Published 5 December and closing on 13 February 2017, This consultation sets out a package of measures aimed at tackling three different areas of pensions scams, a cold calling ban consulting on clarifying the law so that Funds can block pension transfers based if concerned it's a Scam, and looking at single member occupation pension schemes only being registered by active companies
UPDATED	Indexation and equalisation of GMP in public service pension schemes	https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes	Published on 28 November 2016, and a response sent from APF; this consultation gave three options for increasing Guaranteed Minimum Pensions (GMP) within the public sector for those reaching State Pension age from 6 December 2018. Whilst a preferred option was given, the response also gave support to a fourth option suggested by the Fund Actuary which proposed that central government should adopt some of the cost instead of passing this to the pension schemes involved. A response is not scheduled until next year.
	Reforms to public sector exit payments: response to the consultation No further progress and introduction will be put back as a result of General Election	https://www.gov.uk/government/consultations/further-consultation-on-limiting-public-sector-exit-payments http://www.legislation.gov.uk/ukxi/2017/70/pdfs/ukxi_20170070_en.pdf	Introduction of new regulations for exit payments appear to have been further delayed. <ol style="list-style-type: none"> 1. recovery of exit payments for high earners who are re-employed actual regulations expected any time 2. the £95k cap for exit. Employment Enterprise Regulations have commencement regulations effective from 1 February 2017 short consultation possible awaiting further information 3. Third tranche on exit payments Government responded to the consultation on reforming exit payments across the public sector. Departments asked to submit details of their proposals, including limits on employer funded early access to pension benefits (e.g. redundancy and business efficiency retirements in the LGPS).
HM Revenues & Customs	Revenue and Customs Brief 14 (2016): VAT, Deduction of VAT on pension fund management costs following Court of Justice of the European Union decision in PPG	https://www.gov.uk/government/publications/revenue-and-customs-brief-14-2016-vat-deduction-of-vat-on-pension-fund-management-costs-following-court-of-justice-of-the-european-	Changes to the reclamation of VAT on fund management costs may affect LGPS funds once pooling is in place. These changes were originally due with effect from 1st January 2017 but have now been pushed back to 1st January 2018. Project Brunel will be keeping an eye on how it is evolving and take appropriate advice. Consultation closed 31 December 2017

		union-decision/revenue-and-customs-brief-14-2016-vat-deduction-of-vat-on-pension-fund-management-costs-following-court-of-justice-of-the-european-union-decision	
DCLG UPDATED	LGPS Regulations: Draft Amendment Regulations with Best Value & Fair Deal consultation and freedom and Choice options	https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations	<p>This consultation reviews the approach for Best Value and Fair Deal for the transfer of staff. Closed 20 August 2016. Response has led to DCLG deciding to split these away from the amendment regulations as rethink required. Nothing expected before June 2017</p> <p>The other amendments will be processed earlier but need changes to the Freedom and Choice section so short consultation may be required. Expected implementation delayed because of Election</p>
The Pension Regulator (TPR)	<p>TPR provides guidance for trustees setting and monitoring investment strategies PN17-12 [30/03/2017]</p> <p>Clarification sought from TPR on LGPS implications [27/4/2017] (Follow up sent 30/05/2017)</p>	http://www.thepensionsregulator.gov.uk/press/pn17-12.aspx	As part of its strategy to produce simpler guidance for occupational pension schemes, The Pensions Regulator (TPR) has recently published new investment guidance for trustees.
Government Actuaries Department (GAD)	Managing risks in the public service pension schemes	https://www.gov.uk/government/publications/managing-risks-in-public-service-pension-schemes-thoughts-on-measures-and-control-mechanisms	GAD has published a document outlining its thoughts on a report published in June from the National Audit Office on the Government's public sector pension liability. The document sets out some ideas on appraising long-term risks for public sector pension schemes.
Financial Conduct Authority (FCA) UPDATED	CP16/29: Markets in Financial Instruments Directive II implementation – Consultation Paper III	https://www.fca.org.uk/publications/consultation-papers/cp16-29-mifid-ii-implementation	<p>This consultation closed on 4 January 2017, and looked at the Markets in Financial Instruments Directive II (MiFID II) which takes effect on 3 January 2018. The main concern for the LGPS is all investors would be treated as “retail” investors as opposed to “professional” clients. This would have significant implications for the investments available to LGPS Funds and significantly impede the implication of investment pooling. A response was drafted by the Brunel Pension Partnership on behalf of the 10 Founder Funds and can be viewed at the following link: https://www.brunelpensionpartnership.org/en/news/2017/01/bpp-response-to-mifid-ii-consultation</p> <p>The FCA will be issuing its response and any changes to the criteria to enable LGPS funds to opt up more easily by end of June 2017.</p>

			Investment Management Association working with LGA and FCA to agree standard LGPS opt-up template for all investments managers to use to reduce burden on LGPS funds (have to be approved by each of the Fund managers)
Scheme Advisory Board(SAB)	<p>Academies' review</p> <p>Academies and the LGPS</p>	<p>http://www.lgpsboard.org/index.php/structure-reform/review-of-academies</p> <p>Above link has been updated to report these developments</p> <p>S:\Pensions\Users Shared\Communication\Pension Board\LGPS Information Notes on Academies from DCLG and DFE April 2017</p>	<p>Ministers agreed that DfE, DCLG, GAD and the Board should continue to work closely together to pursue solutions, engaging key stakeholders including pension funds, actuarial firms and academy trusts as appropriate.</p> <p>The next stage will be to gather relevant evidence and develop specific proposals for change that the Board will consider before submitting its recommendations to Ministers for their consideration.</p> <p>A series of information pages on the Local Government Pension Scheme (LGPS) as it affects academies in England. Was released by DCLG and DFE. In April, 2017</p>
	Investment fees - Code of Transparency	http://www.lgpsboard.org/index.php/structure-reform/cost-transparency	<p>The move toward investment fee transparency and consistency is seen by the Board as an important factor in the LGPS being perceived as a value led and innovative scheme. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and included in the government's criteria for pooling investments.</p> <p>To assist LGPS funds in obtaining the data they require in order to report costs on a transparent basis the Board is working to develop a voluntary Code of Transparency for LGPS asset managers</p>
NEW	Committees – membership & remit	http://www.lgpsboard.org/index.php/sub-comms/membership-remit	The Scheme Advisory Board have requested that a further review of Ill-Health retirements be carried out taking on board the recommendation previously made by the Shadow sub-committee. A Working Group has been set up and Alan South [Technical Advisor] is a member of this group.
CIPFA NEW	LGPS Fund Accounts 2016/17: Example Accounts and Disclosure Checklist [Dec 2016]	http://www.cipfa.org/policy-and-guidance/publications/l/lgps-fund-accounts-201617-example-accounts-and-disclosure-checklist-online?	

	Investment pooling guidance	http://www.cipfa.org/policy-and-guidance/publications/i/investment-pooling-governance-principles-for-lgps-administering-authorities-online	Guidance for Funds to consider when setting up pooling of investments.
	Funding Strategy Statement Guidance	http://www.cipfa.org/policy-and-guidance/publications/p/preparing-and-maintaining-a-funding-strategy-statement-in-the-lgps-2016-edition	This guidance has now been published and it helps authorities to review and update their FSS to take account of this new guidance and associated regulatory changes.

Those highlighted in Grey are those previously reported but no further developments have occurred

These will then be removed from next list unless further developments are expected

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	23 JUNE 2017
TITLE:	WORKPLANS
WARD:	ALL
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Appendix 1 – Investments Workplan to December 2017</p> <p>Appendix 2 – Pensions Benefits Workplan to December 2017</p> <p>Appendix 3 – Committee Workplan to June 2017</p> <p>Appendix 4 – Investments Panel Workplan to December 2017</p> <p>Appendix 5 – Training Programme 2017 - 2018</p>	

1 THE ISSUE

- 1.1 Attached to this report are updated workplans for the Investments and Pensions Benefit teams which set out the various issues on which work will be undertaken in the period through to late 2017 and which may result in reports being brought to Committee. In addition there is a Committee workplan which sets out provisional agendas for the Committee's forthcoming meetings.
- 1.2 The workplan for the Investment Panel is also included for the Committee to review and amend as appropriate.
- 1.3 The provisional training programme for 2017-18 is included as Appendix 5.
- 1.4 The workplans are consistent with the 2017-20 Service Plan but also include a number of items of lesser significance which are not in the Service Plan.
- 1.5 The workplans are updated quarterly.
- 1.6 Member attendance at training events is recorded and reported annually in the Annual Report and Accounts. This will include a record of those members that have completed The Pension Regulators Knowledge and Skills Toolkit.

2 RECOMMENDATION

- 2.1 That the workplans and training programme for the relevant periods be noted.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations to consider.

4 THE REPORT

4.1 The purpose of the workplans is to enable members to have a better appreciation of their future workload and the associated timetable. In effect they represent an on-going review of the Service Plan while including a little more detail. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets.

4.2 The workplans and training plan will be updated with projects arising when these are agreed.

4.3 The provisional training programme for 2017-18 is also included so that Members are aware of intended training sessions and workshops. This plan will be updated quarterly. It also includes a summary of the work the committee undertakes to meet the requirements of CIPFA's Knowledge and Skills Toolkit.

4.4 Please note that member attendance at training events is recorded and reported annually in the Annual Report and Accounts. This will include a record of those members that have completed The Pension Regulators Knowledge and Skills Toolkit.

5 RISK MANAGEMENT

5.1 Forward planning and training plans form part of the risk management framework.

6 EQUALITIES

6.1 An Equalities Impact Assessment has not been completed as the report is for information only.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 N/a

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager; 01225 395306 Geoff Cleak, Pensions Manager, 01225 395277
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

INVESTMENTS TEAM WORKPLAN TO DECEMBER 2017

Project	Proposed Action	Committee Report
Member Training	Implement training policy for members (and then officers) in line with CIPFA Knowledge and Skills Framework and Toolkit (when issued). Arrange training sessions as necessary to Ensure that all Committee members stay abreast of the latest developments in the world of local government pensions by being given the opportunity to attend seminars Training programme for new members in place	On-going
Review manager performance	Officers to formally meet managers as part of monitoring process See IP workplan for Panel meetings	Ongoing
Investment strategy & projects	Projects for implementation or further investigation. <ul style="list-style-type: none"> • LDI Implementation • RI Policy Review implementation • Strategic review (post valuation) • Investment strategy for CB funded bodies 	In progress In progress In progress Start 2Q17
Pooling of investments	Participate in Brunel Pension Partnership – development of client side requirements, transition planning (of assets) Review governance arrangements required as a result of pooling Review team resource and structure as a result of pooling	On-going 1&2Q17 From 1H17
Monitoring of employer covenants	Annual monitoring of changes in employers financial position	On-going
Review AVC arrangements	Review choice of investment funds offered for members	3Q17
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	Annually
Investment Forum	To discuss funding and investment strategies and issues	4Q17
Ill health insurance options	Implement captive ill-health pension costs for smaller employers	Implementation 2Q17
Pensions Board	Training plan	Ongoing
Document Management System	Create structure for document management system ready for using Council solution or alternative provider	Delayed but expected to be in next supplier update

Statement of Investment Principles / Investment Strategy Statement	Publish new Investment Strategy Statement by 1 April 2017	Complete
	Revise periodically after strategy changes	Ongoing
IAS 19	Liaise with the Fund's actuary in the production of IAS 19 disclosures for employing bodies	No report
Final Accounts	Preparation of Annual Accounts	Annually 2 nd quarter

PENSIONS ADMINISTRATION TEAM WORKPLAN TO 31 DECEMBER 2017

Project	Proposed Action	Report
Employer Self Service rollout	Continuing Employer Self Service training of all new and remaining employers to enable full electronic data delivery. However, review of software to be undertaken to ensure product is fit for purpose and meets Fund requirements	Ongoing Q4 2017
i-Connect software – to update member data on ALTAIR pension database automatically monthly	All Unitary Authorities Live Onboarding North Somerset Onboarding B&NES Strictly Education (3 rd Party Payrolls) UWE Fire scheme [on hold pending BCC software review]	Due 2017/2018 Q2 2017 Q2 2017 Q4 2017 Q4 2017
Move to Electronic Delivery of generic information to members	Continue to move to electronic delivery to all members (other than those who choose to remain with paper). Campaign to increase the sign up of members to Member Self Service (<i>My pension online</i>)	Ongoing Ongoing
Launch of Member Self Service (MSS II)	To replace existing MSS. With enhanced self service and interface features.	Due Q2
Historic Status 9 Cases (Old member leaver cases with no pension entitlement. Previously untraced)	Identify cases and contact former members (tracing agent support) concerning pension refund payment.	Ongoing Completion due 17/18
TPR Requirements	Data Quality Management Control – ensure processes and reporting in place to reflect TPR compliance.	Completed
Guaranteed Minimum Pension (GMP) Data Reconciliation Exercise Following cessation of Contracting out section April 2016	Carry out full reconciliation with HMRC records to mitigate risk from holding incorrect GMP liability	Ongoing Due Completion 18/19
2016/17 Year End Process	Ensure complete data receipt from employers and carry out reconciliation process. Issue member ABS prior to 01/09/2017 (1) Deadline for data receipt (30/4/17) (2) Deadline for reconciliation (June/July) (3) ABS timetable (July/August) (4) Member AA Notifications (Sept)	Ongoing Completed Ongoing Timetable Planned Ongoing

Review Workflow & Data Processing	<p>Implement new Task Workflow Arrangements . (Phase 2) - trans process). (Phase 3) – Divorce & Death) (Phase 4) – member estimates (link to MSS 2 project plan)</p> <p>Implement New Leaver Form & Process</p>	<p>Completed</p> <p>Completed</p> <p>Due Q2 2017</p> <p>Due Q3</p>
Trivia commutation of Small Pension Pots	Undertake review of pensioner member pots to identify potential commutation opportunity following Gov't budget announcement	Due Q4 17/18
Pensions Payroll – Platform Replacement (Cobol to Java)	<p>Replacement of existing platform under guidance from Financial Systems team and in conjunction with IT/Heywood.</p> <p>Dual benefit processing over 2 month period to align payroll system</p>	<p>Earmarked July/September 17</p>
Review Pension Admin Strategy	Review & update current PAS (2015) for approval by Pensions Committee (including employer SLA document)	Q4 2017

Committee Workplan to March 2017

JUNE 2017
Roles & Responsibilities of the Committee – reference only
Review of AVC arrangements
Pension Fund Administration – Performance Indicators for Year & Quarter Ending 31 March 2017 and Risk Register Action Plan – monitoring report
Budget & Cashflow Monitoring 2016/17 – outcome
Strategic Investment Review - outcomes
Annual Review of Investment Strategy & Performance – monitoring report
Report on Investment Panel Activity
Approval of draft Accounts 2016/17
Update on Legislation
Update on pooling
Workplans
Planned Workshops: Strategic Investment Review

Special Committee 5 JULY 2017
Strategic Investment Review – Agree revised investment strategy

SEPTEMBER 2017
Review of Investment Performance for Quarter
Pension Fund Administration –Performance Indicators and Risk Register
Budget & Cashflow Monitoring 2017/18
Report on Investment Panel Activity
Annual Responsible Investing Report
Approval of Committee's Annual Report to Council
Update on Pooling
Noting of Final Accounts 2016/17
Update on Legislation
Workplans
Planned Workshops: None

DECEMBER 2017
Review of Investment Performance for Quarter
Pension Fund Administration –Performance Indicators for Quarter and Risk Register
Budget & Cashflow Monitoring 2017/18
Report on Investment Panel Activity
Update on Pooling
Update on Legislation
Workplans
Planned Workshops: Responsible Investing – agree policy and framework

INVESTMENT PANEL WORKPLAN to December 2017

Panel meeting / workshop	Proposed agenda
Panel Meeting 4 September 2017	<ul style="list-style-type: none"> • Review managers performance to June 2017 • Implementation activity arising from Investment Strategy review • Meet the Manager TBC
Panel Meeting 13 November 2017	<ul style="list-style-type: none"> • Review managers performance to September 2017 • Implementation activity arising from Investment Strategy review

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Committee training programme 2017-18

	Topic	Content	Format	Timing
1	Governance	Overview of governance structure LGPS Scheme Advisory Board	Committee	June 2017 Committee meeting
2	Overview of Fund Strategies	Scheme outline and structure Administration Strategy Communications Strategy Risk Register	Committee	Committee papers
3	Actuarial Valuations	Valuation methodology 2018 interim valuation outcome LGPS Cost Cap Mechanism	Committee Workshop	Committee reports Interim valuation workshop 2Q18
4	Funding Strategy Statement, covenants, admission and exit policies	Funding Strategy Covenant assessment process Admission and exit policies and funding basis used	Committee	Committee reports Annual update on scheme employers
5	Investment strategy	Asset allocation & Investment strategy Statement Investment strategies e.g. active vs. passive Investment management structure Process for appointing managers Monitoring managers and performance measurement Fees	Committee Workshop	Strategic Investment Review 1H17
6	Managing liabilities	Implementation of LDI framework Review of Investment Strategy for Corporate Bond bodies	Investment Panel Investment Panel	Panel reports
7	Responsible Investment Policy	Policy principles Implementation	Committee	Annual RI report

Training Programme and the CIPFA Knowledge & Skills Framework (2017/18)

Topic	Related CIPFA Knowledge & Skills Framework areas:	Timing
Fund Governance and Assurance	Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management	June committee meeting (through committee paper on responsibilities and new member training);
Manager selection and monitoring	Investment Performance & Risk Management	Ongoing by Panel in quarterly monitoring of manager performance Annual report to Committee by Investment Consultant (June Committee meeting)
Asset Allocation	Investment Performance & Risk Management, Financial Markets & Products	On-going through monitoring of strategy, Workshops on investing in different assets, strategic allocation
Actuarial valuation and practices	Actuarial Methods, Standards and Practices	Funding update reports quarterly to Committee 2018 interim valuation workshop